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# **Assessment of the Potential for Export Led Growth in South Africa with Emphasis on Small, Medium and Micro Enterprise**

## **Final Report**

### **U.S. Agency for International Development**

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## List of Abbreviations and Acronyms

ANC	African National Congress
CIMEC	Center for Investment and Marketing in the Eastern Cape
Cofesa	Confederation of Employers of South Africa
CSDf	Corporate SMMEs Development Forum
CSIR	Centre for Strategic and Industrial Research
DBSA	Development Bank of Southern Africa
DCCS	Duty/Credit Certificate Scheme
DTI	Department of Trade and Industry
EC	European Community
EMAI	Export Marketing and Investment Schemes
EU	European Union
FABCOS	Foundation for African Business and Consumer Services
FDI	foreign direct investment
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GEAR	Growth in Employment and Redistribution of Income
GEIS	General Export Incentive Scheme
GSP	General System of Preferences
IBEC	Independent Business Enrichment Center
IDC	Industrial Development Corporation
ISA	Investment South Africa
ITC	International Trade Center
Itrisa	International Trade Institute of South Africa
JCCI	Johannesburg Chamber of Commerce and Industry
KFC	KwaZulu-Natal Finance Corporation
MEP	Manufacturing Extension Partnership
MIDP	Motor Industry Development Plan
mt	metric tons

NEPA	Ntsika Enterprise Promotion Agency
NGO	nongovernmental organizations
NPII	Northern Province Investment Initiative
OECD	Organization of Economic Cooperation and Development
PAYE	pay as you earn
RDP	Reconstruction and Development Program
RFI	retail financial intermediaries
RSC	Regional Service Council
SABRITA	South Africa Britain Trade Association
SACU	South African Customs Union
SADC	Southern African Development Community
SAFTO	South Africa Foreign Trade Organization
SASSDA	South African Stainless Steel Development Association
SBA	Small Business Administration
SBDC	Small Business Development Corporation
SDI	spatial development initiatives
SIC	Standard Industrial Classification
SMME	small, medium and micro enterprise
TPO	trade promotion organization
UNCTAD	United Nations Commission on Trade and Development
UNDP	United Nations Development Program
UNISA	University of South Africa
VAT	value-added tax
WTO	World Trade Organization

## **Executive Summary**

### **Introduction**

USAID has asked for an assessment of the prospects for export expansion in South Africa. The tasks assigned were to identify and assess the market opportunities and the corresponding critical constraints to such export expansion with emphasis on maximizing benefits to small, medium and microenterprise. Major objectives were:

- Provide a comprehensive rationale for the expansion of South African exports and to identify potential organizational partners;
- Identify and leverage linkages in other US Government programs and USAID private sector programs;
- Support the growth of the historically disadvantaged SMME export sector in South Africa.

### **Process of Development**

Before examining South Africa's prospects for export led growth, the experience of other countries in achieving such growth was reviewed. General economic theory in the less developed economies after World War II favored the use of high import barriers to shelter the development of local industries. It was held that through import substitution, industrial growth would become sufficiently mature to compete in world markets freely. None of the "import substitution" models achieved this result.

In the 1970s and 80s several Asian economies achieved consistently high rates of economic growth linked to rapidly growing exports. These growth rates were obtained with considerable intervention by government that actively sought to provide the necessary base for export development, including appropriate economic policies. Within this framework, important elements were realistic exchange rates, free trade in inputs and outputs, competitive financial and money markets, competitive primary input markets (including labor and utilities) and tax incentives. There was

also substantial investment in human resources and physical infrastructure. In addition these countries were generally outward looking and possessed strongly developed entrepreneurial attitudes.

The growth in exports was supported by a corresponding growth in investment, fueled both by high rates of domestic savings and by foreign direct investment. In Asia, most foreign direct investment, especially from the US, went to build "export platforms" combining foreign technology, design and components with low cost, but trainable Asian labor to manufacture price competitive exports. By the 1990s the North Asian countries which had once exported labor intensive goods had developed sophisticated industrial societies and were exporting capital and low technology manufactures to other, less developed countries, especially South-east Asia. Technology, especially electronics, also had evolved away from labor intensive processing to highly sophisticated and capital intensive processes.

During this period of rapid Asian export-led growth, South Africa's "import substitution" and politically motivated drive for economic self-sufficiency resulted in policies directly contrary to those found among the successful exporting countries. Now that South Africa would like to enter into an era of export led growth, technology and world trading conditions have changed: the 21<sup>st</sup> century will not offer the same opportunities as did the last decades of the 20th century, and the country's strategies will need to reflect this.

### **South Africa's Economic Base**

South Africa is a complex economy. It is rich in mineral resources, its monetary and fiscal policies are well managed and its annual per capita income of US\$2,600 places it in the upper middle-income bracket for developing countries. Nevertheless it has deep-seated economic problems. South Africa's rate of economic growth has been declining since the late 1960s and, in fact turned negative on a per capita basis in 1982. Only in 1994-96 did economic growth rates exceed the population growth rate, and only modestly. The rate may well drop below the population growth in 1997.

South African investment for over twenty years prior to the democratic elections of 1993 had been capital intensive, much of it sponsored by the state, but which did not result in corresponding increases of productivity. The policies of apartheid left a large majority of the population outside the formal economy and without

the educational or economic capacity to participate. South African industry and agriculture were heavily protected and regulated, with control exercised by the state and interlocking large corporate structures. With the exception of some resource-based products (e.g., basic minerals), it is generally not competitive in world markets.

South African trade figures are not clear inasmuch as they combine the figures from all six countries in the Southern African Customs Union without separating out either South African trade or trade between the members, South Africa, Lesotho, Swaziland, Botswana and Namibia. Also, trade in gold and petroleum was buried in a special category. Gold in years past has represented as much as 40 percent of South African exports by value. Within these limitations, South African exports have increased from US\$25.4 billion in 1994 to US\$29.4 billion in 1996. Gold exports, which still are about 20 percent of export value, cover South Africa's trade deficit in manufactures, giving the country an overall positive trade balance.

South Africa has liberalized trade to a degree and is committed to further liberalization within the next three to five years. It has also largely freed up foreign exchange and investment transactions. South Africa's domestic savings rate remains low, however, and foreign direct investment in new projects has been very modest. Major foreign investment flows have been portfolio investment, divided between purchase of bonds and acquisition of existing companies, the largest of the latter including the purchase of 30 percent of the state-owned telephone company and, just recently, the purchase of a large chemical company by a US firm.

South African corporations have been reorganizing to meet new conditions, making investments overseas and "unbundling" affiliates and subsidiaries in South Africa. The role of government is still strong and privatization of state owned enterprises moves slowly.

With future rates of economic growth in the short term expected to be quite modest together with limited interest on the part of foreign investors, South Africa's potential for export led growth is not readily apparent.

### **Internal Constraints to Growth**

An overwhelming constraint to South African export led growth is generalized low productivity and a relatively high cost of labor. The small domestic market and high levels of protection reduced competition, allowing relatively high prices and low production standards. Within the protected market there was little incentive to resist wage demands from organized labor which were countered by investment in labor-saving, capital intensive production. The net result is that South African firms pay 24 percent more for their inputs than OECD firms and have manufacturing costs 15 percent higher than the OECD average. Taking into account wage rates and capital utilization, South African labor cost per unit of output is higher than that of the typical OECD country.

Compounding the problem of inefficient and high cost industry has been the abysmal lack of human resource development beyond the white minority. Today South Africa lacks skilled labor in many areas and faces little prospect of a rapid turn around in the number of literate and trainable entrants to the labor force.

South Africa also has spatial impediments. Within metropolitan areas non-white populations were forced to live in townships frequently at some distance from places of employment. Much time and effort is expended by much of the formal work force just getting to and from work. Another impediment is that much of the mineral production and a high percentage of industrial production take place in the north central parts of the country, which requires goods in international trade to be moved by rail or road to sea ports for shipment abroad. Transport is a monopoly of the state and tends to be higher in cost than is the case for other, competitor countries.

South Africa's class of trained managerial and technically skilled individuals is small in number and highly mobile. This makes staffing for computer or technical positions difficult and creates serious problems for the public sector.

Agricultural production is inhibited by questions of land tenure and the predominant control over arable land by white minority farmers. Water resources are in short supply in many areas and problems exist over their equitable distribution as between rural human consumption and industrial use. Environmental degradation, especially in mining area, is also present.

### **Legal and Regulatory Constraints to SMME Development**

A major constraint to SMME development in South Africa is the residual impact of decades of apartheid. The educational practices restricted the ability of disadvantaged groups to acquire technical and professional skills. Apartheid policies that placed most blacks in homeland areas deprived them of economic opportunities. Restrictive employment and residential practices kept them from acquiring entrepreneurial skills and business experience, while the curtailment of property rights prevented acquisition of real assets either as sources of wealth or as loan collateral. The system was designed to prevent the entry of disadvantaged groups into the industrial economy except as employees, and these opportunities were limited. Apartheid was especially harsh towards blacks, forcing most to live in homelands essentially outside the developed economy of South Africa.

Apart from the debilitating legacy of apartheid, there are legal and regulatory constraints which affect all small businesses, but which are especially hard on those owned by members of disadvantaged groups which generally lack the experience and network of contacts which would help them to cope. The regulatory burden is best exemplified by the variety and complexity of the tax system. Corporate income taxes, the Value Added Tax, withholding of employee taxes, regional service levies, unemployment insurance payments and those for workman's compensation all entail frequent, but separate, reporting and maintenance of records as well as exacting substantial payments. Little consideration is given to easing the burden for small and medium enterprises.

Other problems include limited access to loan financing, high interest rates and the need to compete in local markets dominated by oligopolistic industrial groups. There are also government rules covering a wide variety of business conditions and officially sanctioned price controls and other constraints to trade. There is also little exemption granted small and medium enterprises with respect to applicable labor laws whether mandatory maternity leave or basic hours of employment.

### **Export Led Growth Potential**

South Africa's major exports have been minerals, including ores, concentrates, and primary metals, such as iron and steel. Gold and diamonds are significant exports, but ferro-manganese, stainless steel and aluminum are exported as well. Another important basic

mineral export is coal. With the opening of the economy, South Africa's mining and basic metals industries have entered into a process of rationalization and restructuring designed to increase efficiency and to lower costs to match world market requirements. The process has resulted in substantial reductions in employment. These products should continue to provide an export base for South Africa, but are unlikely to serve as rapid export growth sectors or sources of additional employment. Basic metals production does, however, provide the raw material for fabrication into a variety of finished goods.

South Africa has expanded production of stainless steel and plans to increase production of aluminum and carbon steel. At present, South African metal fabrication industries are not generally competitive in world markets. Increased manufactured exports in recent years have come from five industries, food processing, paper, chemicals, steel and non-ferrous metals, and vehicles. Of these, food processing and automotive manufacture are moderately labor intensive, while the other three use capital, not labor. For historical reasons, South African industrial investment has focused on big ticket, capital intensive operations, such as synthetic fuels (SASOL), smelters and large metal plants. Relatively labor intensive industries such as apparel and footwear did not develop into cost efficient operations owing to the small size of the domestic market and their protection from foreign competition. Such market liberalization measures as have taken place have been very disruptive of the textiles, clothing and footwear industries which have been forced to retrench, invest in new capital equipment and strive to lower costs of production. They still enjoy substantial import protection so their competitiveness in the global market place is uncertain.

For purposes of job generation, South Africa should emphasize exports of light manufactures, which tend to be labor intensive. Opportunities exist in flexible manufacturing, that is, small production runs of varied items. Niche markets exist in which demand is insufficient to interest major producers, but which would fit in well with South Africa's small scale manufacturers. Small and medium enterprises can participate in light manufacturing of metal parts and components, selected leather and apparel goods and specialty foodstuffs.

Prospective areas for SMME growth include metal fabrication, furniture, clothing, giftware, food processing and services, including in the latter category tourism.

### **Role in Export Development of Small, Medium and Micro Enterprises**

The nature of economic and industrial development in South Africa meant that disadvantaged population groups were not able to develop business easily, especially industry. This is very true of blacks, nearly true of coloreds and generally true of Asians. Black participation in financial services is almost non-existent and is very small in metal manufacturing. Most members of disadvantaged groups, especially blacks, who are in business are in the retail trade or food service.

Those SMMEs that do export tend to be white-owned: automotive components, tool and die shops for example. There are a few small firms owned by members of disadvantaged groups that do export, but they form a very small part of the universe of South African exporters. As a result, looking only at export capacity as the criterion for developmental assistance is far too narrow, efforts should be directed at the broader range of small and medium-sized disadvantaged enterprises.

### **Constraints Specific to SMMEs**

Constraints specific to SMMEs relate generally to the lack of capacity of small and medium enterprises to meet successfully the demands of business. They have more difficulty with legal and regulatory requirements. They lack access to markets and to finance. They find difficult securing premises at affordable rentals, in hiring expertise or accessing appropriate technology. Many live in impoverished areas that lack business and physical infrastructure. On top of this are tax liabilities and opposition from unionized labor to concessions or sub-contracting of manufacturing.

Another constraint is attitude. Many emerging small businesses are the result of work force reductions where individuals have chosen to start up a business when confronted with unemployment. The mentality is still that of holding a job, and not one of entrepreneurship. Lack of both education and experience in basic management and business practices is an important source of the poor business practices, weak financial discipline and poor planning which lead to small business failure.

### **Potential Mechanisms for SMME Export Expansion**

The South African government through its Department of Trade and Industry (DTI) has developed a small business development policy and created two new organizations to direct the effort: Ntsika Enterprise Promotion Agency (NEPA) and Khula Enterprise Finance, Ltd. A division of DTI, Center for Small Business Promotion, provides information to small businesses about export markets while the Export Help Desk assists with guides to export and foreign partners. NEPA provides training and finances technical assistance through other organizations. Khula intends to work as a second-tier financing arm, supplying funds to NGOs and other organizations that in turn will lend to SMMEs. These activities are directed at existing small and medium enterprises, usually manufacturers, and not microenterprises. Regarding exports, NEPA and Khula generally assist firms already exporting or which have obtained export orders, most of which are white-owned companies.

The major thrust to SMME development has been through programs to link production to the needs of larger companies. Many of the major South African corporations have small business development programs. The objective is to develop manufacturing and business capacity among previously disadvantaged business groups in general terms rather than specifically oriented to exports. Government actions in this field focus on procurement with set-aside or affirmative action programs becoming integral parts of public procurement regulations. Numerous provincial and regional organizations, such as Chambers of Commerce, also have programs of SMME development. NGOs have entered the field often with international donor financing. Among these are USAID's BLUE and EASY projects. The BLUE Project has had success in developing small and medium-sized companies as suppliers to larger firms.

All of these programs are of recent origin and have relatively short histories. Both public and private sector programs suffer from shortages of skilled and experienced staff and may find implementation of the various, ambitious programs difficult to carry out in practice.

### **South African Export Expansion Efforts**

South Africa is committed to developing an open economy and looking to exports as a principal engine for economic growth. DTI

has the lead role within government for export development. Its offices support South Africa's overseas trade representation. DTI sponsored the creation of the South African Foreign Trade Organization (SAFTO) which now operates as a non-profit public company offering a wide range of trade-oriented services to members and other firms on a fee basis. The fees inhibit SMME participation while major corporations do their own marketing, leaving SAFTO supporting small and medium-sized enterprise and such large companies as are just now entering export markets.

Government support to foreign investment promotion and related export expansion is represented by the Investment Development Corporation (IDC), a parastatal with a long history of financing jointly or independently an array of large scale industrial projects, including present projects such as a steel mill and smelters of aluminum and zinc. It has agribusiness investments as well. In 1996, Investment South Africa (ISA) was established by IDC to act as a specialized foreign investment promotion arm. ISA is quite new and is essentially still in its initial organizational and training stages.

Foreign trade promotional activities are also carried out by the major industrial chambers, led by the Johannesburg Chamber of Commerce and Industry and followed by chambers in major cities such as Cape Town, Durban and Port Elizabeth. An investment promotion agency has recently been created for the Eastern Cape Province and housed in East London while similar agencies like Wesgro in Cape Town and KwaZulu-Natal Marketing Institute in Durban have been active for several years. Binational chambers of commerce such as the American chamber and SABRITA, the British Chamber, also play active roles in trade promotion.

DTI and the IDC have developed two strategic approaches to promote export led economic growth. The first, Spatial Development Initiatives, is predicated on the concentration of investment into specific geographical areas possessing inherent but underutilized potential. Eight areas were designated. The one farthest along in development is the Maputo corridor that potentially offers the shortest route to a seaport for production from Gauteng and Mpumalanga provinces.

The second is identification and development of industrial clusters, which relates to current thought that export development is no longer just a matter of cheap labor and stand alone firms, but rather requires a deeper industrial development with forward and backward linkages combined with company specialization. The

process of identification of clusters offering potential for development is well underway.

Since 1993, South Africa has been in a position to pursue multilateral and bilateral trade agreements freely. In addition to acceding to the GATT/WTO arrangement which imposed market opening and trade liberalization requirements, South Africa has been active within the Southern African Development Community in efforts to develop it into a free or, at least, preferential trading bloc. Negotiations with the European community have gone slowly, but efforts have been made to expand markets in Asia and the Middle East. South African firms have made significant investments outside South Africa that should tie industry more firmly into global markets. Foreign direct investment into South Africa has been largely portfolio investment, but in time, the foreign connections should result in expanded interest in export markets.

South Africa still has relatively high import tariffs and maintains trade subsidy programs for import-sensitive industries such as automobiles, clothing and footwear, but further reductions in tariffs and the end of subsidy programs should take place early in the next century. The General Export Incentive Scheme (GEIS) was ended in accordance with GATT requirements and replaced with an Export Marketing Assistance Initiative (EMAI) which offers direct assistance to firms for market overseas but no product subsidies.

### **Analysis of South African Databases**

South Africa's information technology industry is well advanced and matches that of Europe. Numerous institutions, ranging from government agencies to industrial chambers maintain internal databases. Several institutions are in the process of developing databases accessible to the public, but little is available now. There are at least three fee-based trade databases in operation currently in South Africa.

Internet-based data is readily available to South Africans who have access to computers and among the varied search engines available are five South African ones. A number of firms are emerging with electronic commerce capacity. Information technology is a rapidly developing industry in South Africa, hampered to an extent by a shortage of skilled personnel, but which in the near future will offer a full array of services. The question for SMMEs from disadvantaged groups is whether they will have the capacity to take advantage.

## **Recommendations**

The consultants were asked to develop broad-based recommendations for potential USAID interventions designed to promote the economic development of small, medium and microenterprises representing historically disadvantaged South African groups. The emphasis was to tie SMME development to South Africa's expected export-led growth. In the course of the assessment it became apparent that tying SMME development directly to export markets would confine potential interventions to a very small group of enterprises. Alternatively, it is believed that appropriate USAID interventions should be directed at promoting the general economic development of small and medium enterprises owned by members of historically disadvantaged groups.

Potential interventions to promote economic development of small and medium enterprises include efforts to:

- improve access to financial resources;
- effect policy reform;
- provide technical assistance;
- promote linkages and partnerships with more developed firms.

Access to finance is listed as a major constraint for SMME development and a number of programs have been started or are expected to be put in place in the near term to address this issue. USAID is involved in this field with its EASY program and further commitment in this area of SMME assistance would, in the consultants' opinion, not be the best advised use of USAID's financial resources.

There are several policy issues at the macro level reform of which would enhance South Africa's export potential. With respect to SMMEs, there are numerous regulatory reforms that could contribute to lessening burdens on small and medium enterprises and thus promote their economic development. USAID may wish to encourage these regulatory reforms through its interaction with concerned departments of the South African government and its participation in national and regional fora involved with SMME economic development.

The consultants believe that USAID should design its proposed interventions to promote the development of small and medium enterprises through assistance in securing business from larger firms or government agencies, that is, linkages. This is the strategy chosen by numerous institutions, including USAID's "Blue" project, which is one of enhanced procurement. In this task the Blue Project contributes to small and medium enterprise development and probably warrants strong consideration for an extension of its activities beyond the scheduled termination date of September 30, 1998.

There are three areas, however, not covered well by the Blue Project. The first is to develop linkages between small and medium enterprises not only with South African "mainline" companies, but companies overseas. Mentoring of one firm by another is clearly the way to go whether one deals with sub-contracting by major companies in South Africa or striving to develop stand alone exporters.

Second, many of the small and medium firms intending to become suppliers to bigger companies need technical assistance in areas such as manufacturing process, quality control, cost accounting and purchasing. Third, the Blue Project and Ntsika as well work with existing small and medium firms. Ntsika states that it is not interested in start-up or survivalist enterprises. While reluctance to work with microenterprises is understandable in terms of manufacturing development, there should be some capacity to encourage new firms with the potential to grow to small or medium status, expanding the universe of these firms engaged in industrial production.

In summary form, the recommendation is that USAID support the development of small and medium South African enterprises to grow in terms of business breadth and volume and in terms of human and physical resources. Current programs to build small and medium business linkages to main line industrial enterprises should be continued, but should be deepened by:

- Expanding the linkage or partnership network program to the US.
- Developing the capacity to provide company specific technical assistance to South African small and medium enterprises, and,
- Encouraging the creation of industrial "incubators" to increase the number of qualified small and medium enterprises.

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# **1. Introduction**

In view of the sweeping political changes that have taken place in South Africa since 1989, especially the democratic election of a new government headed by the African National Congress (ANC) in 1994, the Republic of South Africa has undertaken to reorient its economic and trade policies to include the country within the global economy and to seek more rapid economic growth to begin to meet the serious social deficiencies left as a legacy of the apartheid era. Because of the relatively small size of the South African domestic market, the government has determined that the path to more rapid economic growth is through expanded exports.

USAID has asked for an assessment of the prospects for export expansion in the Republic of South Africa. The tasks assigned were to identify and assess the market opportunities and the corresponding critical constraints to such export expansion with special emphasis on maximizing the benefits to the small, medium and micro enterprise (SMME) sector. Critical constraints were defined broadly to include business, political, regulatory, economic, social/attitudinal, informational and financial. An evaluation of the current infrastructure, institutional support and incentives in place to promote exports from SMMEs was also requested.

A clear objective for this export assessment was to enable USAID/South Africa to determine needs and priorities of the historically disadvantaged SMME population for export development and expansion. Major objectives for the assessment of export constraints and opportunities were:

To provide a comprehensive rationale for the expansion of South African exports and to identify potential organizational partners in both the public and private sectors to assist in this expansion (in South Africa and abroad)

- To identify and leverage linkages in other US Government programs and USAID private sector programs;
- To support the growth of the historically disadvantaged SMME export sector in South Africa and its efforts to establish partnerships in the regional and global economy.

To set the stage under which this assessment has been undertaken, it is useful to recall South Africa's situation in 1993 when the African National Congress was reviewing its policy options

preparatory to assuming the responsibilities of government. As it noted in its policy statement introduction<sup>1</sup> South Africa's legacy from the past was that of a bitter history dominated by colonialism, racism, apartheid, sexism and repressive labor policies. Its economy had been built on systematically enforced racial division in every sphere of society. Rural areas were divided into underdeveloped bantustans and well-developed, white-owned commercial farming areas. Towns and cities were divided into townships without basic infrastructure for blacks and well-resourced suburbs for whites. Segregation in education, health, welfare, transport and employment had left deep scars of inequality and economic inefficiency. In commerce and industry, very large conglomerates dominated by whites controlled large parts of the economy. Cheap labor policies and employment segregation concentrated skills in white hands. Workers were poorly equipped for the rapid changes taking place in the world economy. Small and medium-sized enterprises were underdeveloped, while highly protected industries underinvested in research, development and training. The result was that in every sphere of society, South Africans were confronted by serious problems. Neither a single sector of society nor a single person living was untouched by the ravages of apartheid.

Within this context South Africa nevertheless developed the largest industrial base in Africa and an economy, despite domination by a white minority, larger in terms of purchasing power by far than any other on the continent. The anomaly of the country's two-tiered development is that it is not considered a "developing country" and thus has not generally been the recipient of assistance from international donors or the subject of development studies and it has not had preferential access to major world markets. Its developmental problems are far more severe, however, than those of the developed world, and in many aspects of development, it has fallen substantially behind economically emerging countries such as Korea, Taiwan, Singapore and Malaysia.

The challenge for South Africa is to grow its economy at a rate sufficient to provide for the unmet needs of its historically disadvantaged population, while maintaining economic, political and social freedom for all.

## **2. Process of Development**

Before examining South Africa's prospects for export-led growth, a look at the experience of other countries provides useful background.

Immediately after World War II, there was strong interest in rebuilding war-torn economies and overcoming the disruptions caused by the war, including the end of colonial domination, as former colonies became independent (e.g. India and Pakistan in 1947, the Philippines in 1948 and Indonesia in 1949). By the 1950s, it was apparent that Japan and Western Europe were well on the way to economic recovery, but that elsewhere, economic development levels lagged behind.

Strategies to achieve economic growth in most of these less-developed economies followed the import substitution model. The strongest rationale for this approach was to lessen dependence on commodity exports and their market volatility. Another concern was more ideological: fear of losing control over the national economy to foreign corporations and a bias towards socialist, planned economies. Industrialization in economies with limited purchasing power was believed to require creation of special trade regimes. Essentially imports were restricted by a combination of high tariffs and numerical quotas, creating a protective wall behind which local industries could develop to supply the market. Many of the major multinational corporations went along with these programs, putting in small, high-cost manufacturing plants for automobiles or appliances that could be operated profitably only by commanding high domestic prices. In numerous instances, governments nationalized previously foreign-owned enterprises, especially in the areas of utilities, energy, mining and metals, and also in transport. Production, processing and sale of major agricultural commodities, especially sugar, were also taken over by the public sector. In sum, developing countries following the import-substitution economic development model generally followed "command economy" policies with extensive government economic intervention, including a major role in the economy for state-owned enterprises.

In theory, the import-substitution growth model was supposed to evolve to a level at which the industries would be competitive in world markets and engage in exports. In some Asian countries this took place, but in most places and most of the

time, the import-substitution model failed to evolve into a mature economy. Failure to evolve as expected resulted from many causes, but among the more important was that serving a small, protected market rarely led to cost-efficient production or justified the level of investment in facilities required to serve global markets. The problem was worsened in most cases by government failure to maintain effective fiscal and monetary policies, aggravated by mismanagement of state-owned enterprises.

After the general shock to world economies by the sharp rise in petroleum prices of 1973, developing-country economies were especially hard hit by the worldwide recession of 1981-82. Meanwhile, a number of Asian countries, principally the famous "Four Tigers" (South Korea, Taiwan, Hong Kong and Singapore), had experienced impressive rates of economic growth that appeared to have been the result of successful export expansion. Export-led growth as a model for economic development became increasingly acceptable. The Asian countries were held to be exemplars of this new economic pattern. Export-led growth requires as a corollary free access to world markets, which implies a global system of open markets and economic decisions reached principally through free-market price mechanisms. The development of the General Agreement on Tariffs and Trade (GATT) in the post-war period had provided a formula for expanding market access internationally. The long-running Uruguay round of negotiations resulted in the latest phase of internationally agreed trading rules, including the creation of the World Trade Organization (WTO) as the governing body.

Each of the four countries listed above followed a somewhat different course of economic development: There has been no one model for East Asian development. Each of the countries had successful export-promotion mechanisms and provided an array of services to the export community. There were also varying degrees of government intervention in the economy. A core set of good economic policies was essential-macroeconomic discipline, outward orientation and human resource development. Some analysts have held that five elements are needed: Realistic exchange rates, free trade in inputs and outputs, competitive financial and money markets,

competitive primary input markets (includes labor and utilities) and tax incentives.<sup>1</sup>

There is some question, however, whether trade or investment drove growth. In the 1950s, Korea and Taiwan both had pro-export policies in place but actual exports were limited to commodities and represented a small proportion of Gross Domestic Product (GDP). To promote domestic investment, which required the import of capital goods, these countries had to export to generate the foreign exchange required. In any event, trade-led growth is not effective without parallel growth in investment.

A strong element in the success of these countries was the active role played by the respective governments. The formula that worked was not *more* government, but *effective* government. Government economic policies favored exports, or were at least neutral with respect to domestic production. Governments made significant investments in infrastructure—ports, railways, telecommunications and industrial parks, and, very importantly, invested in human resources, providing primary education for all and widely available access to secondary education. Land reform and tax policies led to reasonably equitable income distribution. East Asia also benefitted from the quality of its government bureaucracy. The Confucian tradition of respect for authority and the prestige afforded officials made government service attractive to well-educated and skilled individuals. The South Korean government offered sizable salaries to attract US-educated and highly skilled Koreans, a “reverse brain drain.” Indonesia relied heavily on U.S. trained technocrats. Finally, in much of East Asia there existed strongly developed entrepreneurial attitudes.

Through the 1980s, 12 more countries joined the Four Tigers in enjoying considerable success in expanding exports: Sri Lanka, Cyprus, Thailand, Indonesia, Peru, Jordan, Uruguay, Malaysia, Tunisia, Philippines, Colombia and Morocco. Manufactured exports included clothing, textiles, electrical machinery and nonmetal mineral manufactures. Thailand and Malaysia moved into engineered goods such as components and subcomponents. The three principal markets for manufactured goods from developing countries were the US, the European

Galen Spencer Hull, *Export Promotion: In Search of the Silver Chalice*, monograph (1990).

Community (EC) and Japan. In 1988 figures, the US imported manufactures from developing countries were valued at US\$122 billion, the EC took US\$90 billion and Japan US\$30 billion.<sup>2</sup> Within these figures, 20 percent of US imports, 28 percent of Japanese and 31 percent of EC imports were clothing and textiles. Another important category for all three markets was steel and basic metal manufactures. Japan also imported jewelry, semi-precious stones, chemicals and building materials. The US also imported electrical machinery, office equipment and vehicles. The EC's imports included electrical machinery, jewelry, semi-precious stones and chemicals. The US is the largest and most accessible market, except for restrictions on textiles, apparel, iron and steel. But the 1988 Trade Act and its "Super 301" provisions have led to numerous antidumping and countervailing duty actions against imports. Japan has gone offshore for labor-intensive assembly operations. As late as 1992, the EC was still 12 country markets and generally highly protective with regard to agriculture, coal mining, iron and steel, shipbuilding, aircraft, textiles, clothing, food and beverages, paper and paperboard products.

During this period, US manufacturers invested abroad for two reasons: (1) to serve local markets, especially where import-substitution policies existed, and (2), in "export platforms" for output intended for American markets. Cheap, but trainable, labor was sought for labor-intensive goods. As a percentage of manufacturing value in the US, direct labor ranged from 25 to 30 percent of content in 1964, 10 to 15 percent in 1984, and now in some cases is as low as 5 percent.<sup>3</sup> This transfer of labor-intensive manufacturing to offshore sites by US manufacturers was an important element in the successful expansion of exports by developing countries. As the role of technology in the manufacturing process increases, however, the attractiveness of overseas, economically underdeveloped locations decreases.

There is now a need to tie manufacturing closely to engineering, research and marketing resources to assure fast response to changing conditions. As a case in point, semiconductor manufacturing operations once cost between US\$30 and US\$50 million, and could be located offshore. Now a facility costs about US\$1 billion, and there is reluctance to place it very

International Finance Corporation, *Exporting to Industrial Countries*, 1990.  
Robert R. Miller, *Investment Strategies of U.S. Manufacturing Companies in Developing Countries* (International Finance Corporation, 1991).

far from corporate headquarters. According to the International Finance Corporation, "Only where production runs are shorter and costs of even flexible automation too high do labor costs become a significant factor in considering plant location."<sup>4</sup> The need for high quality and a just-in-time inventory supply imply capital intensity, skilled labor and a reduction in the number of suppliers. Industry now looks for effective production "clusters," where infrastructure, forward and backward linkages, etc., all exist. Poor countries are left with apparel, footwear and job-shop foundries.

**Original Asian Tigers**

South Korea  
Taiwan  
Hong Kong  
Singapore

The original Asian Tigers, through export-led growth and high rates of investment, have developed essentially into developed, industrial societies able to compete in highly technical manufacturing and possessed of the clusters described above. The other 12 countries mentioned as having had success are not yet at this stage. The sharp decline in economic growth rates, together with serious financial sector problems in Japan noted since the end of the "property boom" in 1990 now have been joined by serious financial and industrial crises in South Korea and Thailand. The financial crisis has spread from these latter two to other developing countries, both near - Indonesia, Philippines and Hong Kong-and far - Brazil, Argentina. It is not unlikely that the overall impact on a globally interconnected world will be universally negative and that the great economic boom of the 90s is entering a pause, if not a substantial economic correction. One of the reasons for the spreading impact of this crisis is that as a group, these countries were net importers, so that declines in domestic consumption translate directly into declines in exports from their foreign suppliers, the principal one of which is Japan.<sup>5</sup>

Miller, *Investment Strategies*, 18.

"Asia's Spreading Shadow," *The Economist*, 1-7 November 1997, 86.

The conclusion has to be that no one country has found the “magic formula” for continuous economic growth. In fact, consideration must also be given to the economic costs associated with the growth that did take place, ranging from social dislocation to severe environmental degradation. Balancing these costs against the real growth in material benefits obtained by these countries leads to a more moderate valuation of the total gains enjoyed.

In almost all instances in the countries discussed, governments have made efforts to assist the export and investment process through some form of institutional support. The world track record for these institutions is mixed. In the case of the original Asian Tigers, they were considered exceptions without parallel in apparent effectiveness and cost-effectiveness of support and assistance provided to firms in export marketing and related tasks.<sup>6</sup> Aside from official trade promotion organizations (TPOs), each of these four countries systematically fostered provision of information and support services by a wide range of private service providers, consultant, banks, trading companies, associations and chambers of commerce.

The Hong Kong TPO focused on matchmaking between buyers and sellers, and trade promotion through trade fairs, promoting a quality image. In the other three countries, the TPOs engaged as well in market development, that is, research on promising markets together with a program of assistance and goals for each promising product or industry, generally with direct assistance in production capabilities and marketing strategies. Further assistance was given in product design, packaging and, in some cases, sales prospecting abroad. All four of these countries matched or exceeded the level of services in this area provided by advanced industrial countries in information and services. Full success, however, was dependent on effective policies.

As described earlier in this section, effective policies include realistic exchange rates and sound macroeconomic policies. Policies also must be favorable for development of financial institutions and suitable to exports and industrial advancement. All four countries provided exporters a free-trade regime so that

Donald B. Keesing, *The Four Successful Exceptions: Official Export Promotion and Support for the Export Marketing in Hong Kong, Singapore, the Republic of Korea and Taiwan, China* (Washington, DC: World Bank, 1988).

export manufacturers had swift and reliable access to a full range of duty-free imported inputs. Simultaneously in each country there developed a wide range of local industries producing inputs of world quality and at world prices.

There is no dispute that outward-looking development strategies are needed to carry out efficient industrial development and restructuring, but a critical element has almost always been the catalyst, defined as an individual or company or public agency, or a combination of these three, that:

- pioneered the process of development in an outward-oriented direction before anyone else in the sector
- packaged the needed know-how with domestic endowments and external financing
- and diffused the experience and know-how it learned in that initial development process<sup>7</sup>

The more successful catalysts have come from the private sector. The record for government assistance is generally negative. USAID-supported export promotion activities failed in Egypt owing to a lack of appropriate economic and trade policy, but enjoyed some success in India and Morocco. In general, however, the evidence suggests that assistance in such services as export promotion, marketing assistance, consultant advice and provision of export-related information has rarely been effective in systematically expanding exports.<sup>8</sup>

Government-subsidized export-promotion services can be useful in the early stages of market entry, but then they become marginal. Among handicaps confronted by public-sector TPOs is the perceived need to be neutral and generally objective: They do not choose firms more likely to succeed or drop those less likely. A majority of export firms rely on internal resources and highly interrelated buyer/seller relationships. Countries such as Japan, the Netherlands and Germany have developed effective networks of their foreign commercial services, binational chambers of commerce and their import-export

Yung Whee Rhee and Therese Belot, *Export Catalysts in Low-Income Countries* (Washington, DC: World Bank, 1990).

Paul Hogan, Donald B. Keesing and Andrew Singer, *The Role of Support Services in Expanding Manufactured Exports in Developing Countries*, (Washington, DC: Economic Development Institute, World Bank, 1991).

finance agencies, trade-related financial institutions, and aid agencies. One of the failures of externally financed trade promotion agencies in lesser developed countries (LDCs) has been a failure to focus on supply and distribution issues. The EC changed its approach in the mid-1980s to focus on these issues and also to require cost sharing for the services rendered.

The conclusion must be that in 1998, the Republic of South Africa faces a world technically, economically and politically far different from that of previous decades and that models and mechanisms used before must be reviewed very carefully to determine their utility in this changed environment.

### **3. South Africa's Economic Base**

South Africa is a complex economy with much in its favor. It is rich in mineral resources, its monetary and fiscal policies are well managed, and its annual per capita income of US\$2,600 places it in the upper middle-income bracket for developing countries. It has recently emerged from a five-year recession, 1988-1993, the longest in South Africa's history, attributed partly to a sharp decline in public-sector investment in its parastatal companies and to a lack of consumer and business confidence. Its economic problems run deep.

South Africa's real GDP growth has been declining since 1965. In the first half of the 1960s, it grew by almost 6 percent annually. By the late 1980s, it had fallen to around 1 percent. With population growing at about 2 percent a year, per capita GDP growth has been negative since 1982. It plunged after the Soweto uprising of 1976 and again after financial sanctions were imposed in 1985. Despite a recovery in 1986-88, growth has been increasingly influenced by continuing political uncertainty and growing social unrest. Growth in the economy has become increasingly unstable.

For many years, the chronic decline in growth was accompanied by a high and increasing ratio of investment to GDP. South Africa was investing an increasing share of its income and receiving less in economic growth. Total factor productivity growth declined markedly throughout the 1970s, becoming negative in the 1980s. In three important sectors of the economy - agriculture, mining and manufacturing - growth fell and productivity faltered.

In agriculture, capital intensity and a highly regulated and protected environment for white-owned agriculture resulted in huge investments but low growth in agricultural efficiency. Yields per hectare exceed African averages by 50 percent but compare unfavorably with the rest of the world. Over the past 20 years, physical yields of major domestic crops have increased only moderately. Capital intensity is extraordinarily high: the capital-to-output ratio in agriculture is three times as high as in manufacturing.

In the 1960s mining productivity grew, but output stagnated in the 1970s despite rapidly increasing capital stock. Between

1970 and 1980, capital stock increased 6.6 percent annually, but output declined 1 percent annually.

From 1950 to 1970, manufacturing capital stock and output grew at roughly equal rates, with productivity related to capital investment remaining stable.

Between 1972 and 1983, a large fall in capital productivity occurred as a result of large "strategic" investments, primarily in energy and chemicals, essentially financed by the public sector.

Employment growth has deteriorated consistently since 1970, with a shift away from agriculture and a growing imbalance between the black labor supply and employment in the formal sector. This employment gap was only partly filled by growth in the informal sector. The result is that less than half of the black labor force is employed in the formal sector, and, while subsistence agriculture in the former homelands and the informal sector are invaluable sources of employment, roughly one quarter of blacks are without work.

Compared to countries with similar per capita incomes, South Africa reflects far more severe economic and social inequality. Most of South Africa's national income goes to the white minority. Whites have personal incomes per capita 9.5 times those of Africans, 4.5 times those of coloreds, and 3.0 times those of Asians. Despite the harsh inequality in South Africa, some narrowing has occurred in income inequality. From 1970 to 1987, the share of personal income going to blacks increased from 22.3 percent to 31.5 percent.<sup>9</sup>

It was within this difficult economic context that the African National Congress prepared to assume power. Its economic program, the Reconstruction and Development Program (RDP) attempted to address issues of development as well as those involving the social deficits affecting the historically disadvantaged population.

Peter Fallon and Luiz Pereira de Silva *South Africa: Economic Performance and Policies* (Washington, DC: World Bank, 1994) 39.

The key programs of the RDP were:

- Meeting basic needs, defined as jobs, land, housing, water, electricity, telecommunications, transport, a clean and healthy environment, health care and social welfare
- Developing human resources, defined as education and training, a full and equal role for women, restructuring industry, arts and culture, and broad-based sports, recreation and youth programs
- Building the economy by overcoming gender and racial inequalities, low expenditures on research and development, high production costs, unrealized labor rights, adjusting to the world economy, increasing value added in manufacturing, integration with Southern Africa, but without accepting the policy impositions of the International Monetary Fund and World Bank, which had been negative in terms of employment and living standards in some of the Southern African Development Community (SADC) countries.
- Democratizing the state and society with a new constitution and bill of rights

To carry out this program, the involvement of new, outside groups was required to coordinate and direct activities at the national, provincial and local levels.

In undertaking its economic program in 1994, the government was constrained to maintain stable macroeconomic policies directed at controlling inflation, stabilizing the external balance of payments and controlling the fiscal deficit. The government's prudent fiscal and monetary policies and its move to open the economy to the outside world were reasonably successful. GDP growth rates had turned barely positive in 1993 (1.3 percent), grew to 2.7 percent in 1994 and 3.4 percent in 1995. Interim census figures generated in 1996 indicate that South Africa's population growth rate is substantially lower than previously believed, about 1.9 percent per annum, which translates into positive per capita economic growth rates in 1994 and 1995. Inflation has been kept in the area of 9 percent, the fiscal deficit was reduced, and exports grew significantly in

nominal Rand terms, but much more modestly when adjusted to reflect South African currency depreciation.

The government could only make a start on its redistributive policies, owing to its limited budgetary resources, failure of the economy to achieve truly high growth rates, and the normal time required for an entirely new political system to organize. As a result, in a 1996 speech to Parliament, Finance Minister Trevor Manuel admitted that for many South Africans, the pace of change had been too slow. After two years of the RDP, major constraints on growth and job creation remained. The level of domestic savings and reserves were low, the economy suffered from lack of skilled workers, many sectors were uncompetitive, and the labor market was fragmented while "unemployment sits like an albatross around our necks."<sup>10</sup>

Continuing without a change of policy, economic growth at 3 percent a year will generate about 100,000 jobs annually, leaving unemployment in the year 2000 at 37 percent. The scope of public spending on services will remain severely limited, and likely additional funding will not cover more than 15 percent of government departmental expansion plans. The balance of payments remains a structural barrier because South Africa is dependent on imported capital and intermediate goods, and cyclical upswings bring deterioration in the account. Capital inflows since 1994 have eased the problem, but lack of sustained long-term flows force excessive reliance on short-term flows. Exchange rate instability also hurts.

A change in direction was needed: the Growth in Employment and Redistribution of Income (GEAR) policy. The main elements of the new policy were an acceleration of fiscal reform; restructuring of the fiscal, tax and budgeting programs; another step in the relaxation of foreign exchange controls; consolidation of trade and industrial policy reforms; implementation of public sector asset restructuring; expansion of the public sector infrastructure investment program; achievement of structural flexibility in collective bargaining to match industry or sector needs; and a social agreement to moderate wages and prices. Trade and industrial policy reforms include lower tariffs; tax incentives for investment; a boost to SMMEs; a stronger competition policy; and an industrial cluster policy.

Trevor Manuel, "Address to the National Assembly," Cape Town, 14 June 1996.

The GEAR objective is to stimulate more rapid economic growth. Unfortunately, present economic trends are not especially promising. South African domestic spending appears to have leveled off in mid-1997, and GDP growth for the 1997 calendar year is forecast to be 2.3 percent, down from 3.1 percent in 1996. Even this figure is viewed skeptically by many private economists, who believe that a 1.0 percent figure is more likely.

On the global market, the price of gold has hit its lowest point since 1985, dropping below US\$300 per ounce, a 20 percent decline from 1996's average price. Considering that gold bullion is South Africa's second-ranking export, price declines of this magnitude can far outweigh modest positive increases achieved in manufactured exports. In addition, the continuing financial crises in Asia may signify reduced market demand for imports from that area, combined with economic and financial weakness worldwide.

Nevertheless, both outside experts, whether from foreign governments or international lending institutions, and South African government and business leaders are convinced that South Africa can only achieve adequate economic growth through increased exports and sounder integration into the world economy. This has been the announced policy for the past few years. The issue is how much progress has been made and what are future prospects.

The tables below show a comparison of South African trade between 1994 and 1996 with the figures shown in Rand. It should be kept in mind that the figures are not for South Africa alone, but for the South African Customs Union (SACU) with trade figures for Lesotho, Swaziland, Botswana and Namibia and South Africa amalgamated into one set of data. The South African Customs and Excise Department plans to segregate out South African figures starting in February 1998. This is one illustration of the difficulty of obtaining accurate statistics in South Africa, which were previously often regarded as state secrets: Trade figures on gold and petroleum exports are still buried in a "special" category.

Table 3.1. South African Foreign Trade by Region

## SOUTH AFRICAN EXPORTS

REGION	1994		1996		1994 to 1996
	Rand	% Total World	Rand	% Total World	% Increase
Europe	26.635	29.6	38.484	30.5	44.5
Americas	7.006	7.8	10.543	8.4	50.4
Asia	15.208	16.9	25.996	20.6	70.9
Africa	8.632	9.6	17.542	13.9	203.2
Oceania	0.784	0.9	1.834	1.5	233.9

## SOUTH AFRICAN IMPORTS

REGION	1994		1996		1994-1996
	Rand	% Total World	Rand	% Total World	% Increase
Europe	37.478	47.2	54.489	43.2	45.4
Americas	15.405	19.4	18.732	16.2	21.6
Asia	18.498	23.3	34.512	30.0	86.8
Africa	2.354	3.0	3.382	2.9	43.7
Oceania	1.180	1.3	3.089	2.7	261.8

Source: Government of South Africa, Bureau of Customs, Figures in billions of SA Rand.

It should be noted that these very substantial two-year increases in trade are denominated in rand, which depreciated about 20 percent over the period. Total trade in rand and current US\$ grew between 1994 and 1996, as shown in Table 3.2.

Table 3.2 Growth in South African Foreign Trade

## Total Imports

1994 R79.4 Bn. (\$22.4 bn)

1996 R115.5Bn (\$26.9 bn)

## Total Exports

R90.0 Bn (\$25.4 bn)

R126.0 Bn (\$29.4 bn)

Thus what appears as a 40 percent increase in export value over two years turns out to be an increase of 16 percent when converted to current US dollars. From 1995 to 1996, the increase in exports was 23.2 percent in nominal rand values (R23.6 billion) but only 3.5 percent when converted to US dollars. Most of the increase represented commodity-based or primary manufactured items. In other words, of the R23.6 billion of increased exports, R8.4 billion came from precious metals and stones (gold, diamonds and platinum), R3.8 billion from base metals (iron and steel) and R2.4 billion from coal. Nevertheless, manufactured goods represent an increasing proportion of South African exports, growing from around 25 percent of exports in 1985 to just over 30 percent in 1990 and to more than 40 percent in 1996.<sup>2</sup>

South Africa's economic progress since the 1994 elections has been positive, but it has not met, and does not appear likely to meet, the ambitious targets for employment generation and economic growth set out by Finance Minister Manuel. A major limiting factor is the amount of investment in the economy. South Africa's savings rate as a percentage of GDP is low, currently running at 16 percent of GDP, a rate much lower than that in East Asia. To fuel the level of growth needed, foreign direct investment (FDI) in the range of 4 to 5 percent of GDP (R22 to R28 billion) annually is required. Recent levels of FDI have been significant, but far below this level. BusinessMap's database,<sup>11</sup> developed to monitor foreign investment, has tracked commitments from more than 150 foreign firms for a total of R30 billion committed or planned since 1994. Commitments of R5.5 billion were made in 1995, R7.8 billion in 1996, and a projected R11 billion for 1997. Within these totals, some R9.3 billion was used to acquire existing assets that did not necessarily contribute to economic growth, R7.2 billion was invested in expansion projects and R4 billion in new investment. Some figures on investment:

- The largest single recent case of FDI was the acquisition of a 30% stake in Telkom for R5.5 billion by SBC Communications and Telekom Malaysia.

Simon Segal, "More Foreign Investment Vital for SA to Reach Growth Goals," *Sunday Times, Business Times*, 16 November 1997, 4.

- The largest acquisition of private assets was the purchase by Malaysia's Petronas of 30% of Engen for R1.9 billion.

CocaCola has invested or committed a total of R2 billion with two other companies, Caltex and BMW, with multiyear investment programs that exceeded R1 billion. By sector, 22 percent of FDI has been in the telecommunications field, followed by energy (oil) and automotive components. None of these sectors represents much in the way of job generation.

In the world picture, Africa in general and South Africa in particular are not impressive. UNCTAD figures quoted in its *World Investment Report 1997*<sup>12</sup> show investment flows into SADC countries of US\$1.2 billion in each of the previous two years. The United Nations Conference on Trade and Development (UNCTAD) indicates the increase of FDI in South Africa over the past three years to have been US\$330 million. South Africa's share of world investment is stated as 0.1 percent or 0.25 percent of the developing world total.

In considering FDI, a distinction must be made between investment in productive assets and that in financial instruments (i.e. portfolio investment). Foreign purchase of South African bonds reached a total of R30 billion in mid-1997, but has dropped R9 billion since September, illustrating the volatility and temporary nature of portfolio investment.

Trends to enhance FDI include the restructuring of South African corporations as they undergo "unbundling," or divestment of assets, mergers and organizations that present opportunities to foreign investors to acquire assets. In this line a major acquisition of South African private industry assets is scheduled to take place this month with the purchase of Sentrachem, one of the four South African companies that dominate the country's chemical sector, by Dow Chemical, a major US transnational. The purchase of Sentrachem's outstanding stock is expected to cost Dow about US\$480 million.

Fiscal constraints and poor civil service performance have also persuaded government to seek private-sector support in the financing, building and management of social and economic

Segal, "More Foreign Investment," 4.

infrastructure projects. And, finally, progress towards privatization of state assets could attract additional foreign investment.

In this latter category, however, government has moved slowly, and it would appear that, absent strong leadership, internal ideological tendencies in some sections of the ANC and continued opposition from the Confederation of South African Trade Unions (COSATU) will lead to very slow movement towards privatization. A case in point is South African Airways, which has experienced losses in excess of R300 million annually and which is widely believed to need substantial upgrading in service and equipment, for which government is just now discussing the preliminary step to privatization, its conversion from a division of Transnet into a government-owned corporation.

Nevertheless, the government is involved in discussions expected to lead to the privatization of state-owned enterprises such as Aventura, which operates a series of tourist resorts, and SAFCOL, which operates timber plantations in some of the former homelands. Discussions are also being held about the sale of a minority interest in South Africa's airport administration service to foreign entities in this field, such as British Airports Authority, as well as about restructuring other divisions of Transnet, especially Portnet and PX, the package and freight delivery service.

Giving the likely prospect that economic growth rates for South Africa will remain modest and that net investment in new assets will be limited, the potential for export-led growth and job generation is not readily obvious and will probably require a combination of good luck in terms of the world economy and careful targeting.

## **4. Internal Constraints to Export Growth**

An overwhelming constraint to South African export-led growth is generalized low productivity and a relatively high cost of labor. South Africa generally is not able to compete on the basis of comparative labor costs, and its competitiveness in many developed markets is inhibited by distance from these markets and the relatively high cost of transport.

As a legacy of a long-established protectionist, inward-looking and racially segregated approach to development, neither South African industry nor agriculture is generally competitive in international markets. In the case of industry, its costs were squeezed in three ways:

- The small domestic market and high levels of import protection reduced competition in the market place, allowing for relatively high prices and relaxed production standards
- Within this protected market, there was little need to demand higher productivity from labor or to resist wage demands of organized labor, so that labor costs, while lower than European, are much higher than those of most developing countries
- The labor cost problem led to investment in capital equipment, reducing labor content in production

This process of capital intensity nearly ended in the 1980s, when, as a result of political and economic uncertainties, industry largely ceased to invest in new capital goods and the industrial base stagnated in place. This situation is found generally across the board and affects the production of intermediate goods and other components, as well as goods for consumption. The net result is that South African firms pay 24 percent more for their inputs than Organization of Economic Cooperation and Development (OECD) firms and have manufacturing costs 15 percent higher than the OECD average. Also, their capital and productivity-adjusted labor costs are higher, that is, taking the nominally lower South African hourly wage figures and factoring in the use of capital in the measure of production output, the labor cost associated with each unit of output is actually higher than that of the typical OECD country.

In agriculture, the internal monopolies in all sectors, ranging from slaughterhouses to dairy to grain production and horticulture, combined with concentrated land holdings, led to capital-intensive and generally high-cost production. South Africa has been able to export wool, mohair, wine and selected processed fruits, but it is not competitive in meat, dairy or grains. South Africa has developed its forest resources to produce wood pulp, which can be converted into paper, paperboard and particle board; particle board can be used for furniture making, and some pine timber is also available for furniture and building uses. Again the supply is controlled by a few, in this case two major paper companies, which are able to export at world prices and sell domestically at higher prices.

As mentioned in Section 2, export-led growth in East Asia required a set of good economic policies: macroeconomic discipline, outward orientation and human resource development. Among the more detailed contributory factors were realistic exchange rates, free trade in inputs and outputs, competitive financial and money markets, competitive primary inputs and tax incentives. Until 1991, South Africa was the antithesis of this model; even now it has serious disincentives to successful exporting.

First, and probably the most serious disincentive, was the abysmal lack of human resource development beyond a narrow, white minority. Well-intentioned but limited efforts to promote black education have fallen far short of providing an adequate-sized skilled labor force, or even an unskilled labor force that at least is literate and possesses basic math skills. Also, unlike the Asian Tigers, South Africa does not have a homogenous population with a single language and culture, and with a sense of being stakeholders in the economy.

South African industry has enjoyed neither free trade in inputs and outputs nor competitively priced primary inputs. The tax structure is high and serves as a disincentive. Financial markets appear competitive, but the internal real rate of interest is high, discouraging business investment, and the banking system is not especially innovative or aggressive in terms of expanding its market beyond the traditional large-business world.

Other, more specific constraints include an inefficient, undercapitalized and outdated manufacturing base. Owing to foreign exchange restrictions imposed during the 1980s, South African firms were not able to invest profits outside the country.

With no external outlet for their funds and no legal restrictions on "pyramiding," that is, controlling other corporations through holding companies, major corporations such as South African Breweries, AngloAmerican, AngloVaal, etc., constructed large conglomerates within South Africa that resulted in the economy being dominated by an intricate, interrelated web of major corporations joined by large, major parastatals. Investment in productive capacity by the private sector during this period was not warranted, since the domestic market essentially had ceased to grow at the end of the 1970s.

The opening in this decade of South Africa's economy to foreign competition, albeit still limited by relatively high tariffs and oligopolistic markets, brought to light serious weaknesses in many of these groupings. As one writer states: "Most of the evidence points to a corporate sector in tatters, uncompetitive and forced to shed labor by the thousands."<sup>13</sup> As part of this process, since 1994, there have been substantial imports of capital goods and a significant restructuring of corporate ownership. Part of the restructuring comprises the growth and development of black-owned holding companies, which in several cases now hold - at least on paper - substantial corporate assets. None of this has done much as yet either to make South Africa generally more competitive or to enhance its managerial and technical skills.

South Africa also suffers from spatial impediments that reflect two broad conditions. First, racial segregation placed nonwhite populations in residential townships frequently at some distance from places of employment. A substantial amount of time and human energy is expended by a large percentage of the formal work force just commuting from home to work. Absenteeism and time lost in commuting contribute to low industrial productivity.

Second, much of the mineral production and a very high percentage of industrial production takes place in the north central parts of the country, especially in Gauteng Province, which requires goods in international trade to be transported by rail or road to seaports for transmission abroad. Highly regulated and monopolistic practices by the parastatal Transnet have resulted in internal transport costs higher than those found

Ann Crotty, "Our Corporate Emperors Are Naked Now," *Cape Times* 14 November 1997.

in many competitive developed countries. Compounding this issue, port facilities in the major ports of Durban and Cape Town are in use at or beyond installed capacity, requiring substantial new investment to expand freight-handling capacity. Air freight is also limited by South African Airways' dominance of the market and inability to provide reliable air cargo service.

South Africa's class of trained managerial and technically skilled individuals is small in number and highly mobile. This makes staffing of companies requiring computer or technical skills difficult and creates serious problems for the public sector, which suffers from inadequate managerial and skills resources at all levels of government. In addition, there are already major communities of South African emigrants in the UK, the US and Australia; should conditions turn downward either socially or economically, further emigration from this skilled minority can be expected.

South African educational and technical training institutions need to advance further in the development of courses and programs more in line with modern business and technological practices. Universities have not generally devoted much in the way of resources to business education. Expansion is needed at technikons and other institutions of computer and technology-related courses, including courses directed at modern techniques of computer-assisted design, manufacturing and quality control.

### **Selected Constraints to Export Growth**

South African industry has not enjoyed free trade in inputs and outputs nor competitively priced primary inputs.

The tax structure is high and serves as a disincentive.

Financial markets appear competitive, but the internal real rate of interest is high, therefore discouraging business investment.

The banking system is not innovative or aggressive in terms of expanding its market beyond the traditional large-business world.

The manufacturing base is inefficient, undercapitalized and outdated.

South Africa's class of trained managerial and technically skilled individuals is small in number and highly mobile.

Agricultural and other land resource-based production is inhibited by a lack of land titling and clarity of title.

South Africa has serious problems with respect to environmental degradation, which creates health hazards in terms of mining residues and improperly treated wastes.

The perception of widespread crime aggravated by apparent corruption in the police and other areas of government affects the development of tourism, as well as South Africa's ability to attract foreign investors and retain its technically trained sector of the population.

Agricultural and other land resource-based production is inhibited by a lack of land titling and clarity of title. With the collapse of the Homelands system, title to the land has reverted to the state, which—with factoring in historic communal land rights, questions as to the legality of previously forced sales and a lack of clear ownership of township housing—seriously impedes historically disadvantaged groups from securing collateral for prospective financing. Lack of clear ownership, or lease rights, also impedes investment in land for productive purposes.

South Africa has serious problems with respect to environmental degradation, which creates health hazards in terms of mining residues and improperly treated wastes. An overall shortage of water may produce conflict between social goals, that is, providing adequate potable water to townships and rural communities that now have very limited access, as against the need for water by industry. A number of production processes use substantial quantities of water, and these respective requirements must be balanced. A proposed water resources bill assigning overall authority to the government for allocation of water resources has caused concern among South African business groups.

A constraint affecting the development of tourism as well as South Africa's ability to attract foreign investors and retain its technically trained sector of the population is the perception of widespread crime aggravated by apparent corruption in the police and other areas of government. It is not certain that the crime rate in South Africa is greater than in other parts of the world, such as Kenya, Mexico or Brazil, to name areas with serious crime problems, but crime is widely reported (one of the benefits of a newly liberated press) and in fact does affect behavior. Significant sums are spent by companies, hotels and the middle and upper social classes on security, which is one of South Africa's more rapidly growing industries. Government attention to the crime problem seems to be increasing, and there is some hope that the problem can be controlled; but one of the factors is gaining public trust on the part of the authorities. Cases of proven police corruption and a sense that many areas of government, especially at local and provincial levels, do not function effectively make gaining public trust difficult.

## **5. Analysis of the Legal and Regulatory Constraints to SMME Development in South Africa**

### **Introduction**

In keeping with the scope of work, this section focuses on legal and regulatory constraints affecting small, medium and micro enterprises (SMMEs). These same constraints impinge on business activities in general, although the larger firms are far better able to maneuver around them than are the smaller firms. Even large enterprises are affected, not always negatively, by South Africa's absence of an effective competition law. Changes in the legal trade regime, especially actions lowering tariffs, establishing industrial incentives and negotiating preferential access to specific foreign markets, affect a broad range of business activity. Laws covering land tenure, labor utilization, environmental conditions, industrial and health standards, company formations and especially taxation affect virtually all organized companies.

The larger companies of course, have the resources to cope and, at least until recently, the ability to influence implementation favorably or to obtain concessions. Small and medium-sized firms are especially impacted by the legal and regulatory constraints described below. They are generally of a size that makes operating outside the formal economy impossible and are thus, for the most part, forced to register formally as companies and to comply with the myriad registration, tax and labor laws and regulations in existence. This is especially burdensome since the companies often lack the financial and human resources to meet readily their many obligations. The truly small, or micro, enterprises cope fairly easily with many if not most of the pertinent laws and regulations, in essence by ignoring them: the classic "informal" economy. Local-level regulations may affect traders and food providers, but most of these micro-entrepreneurs have few if any employees and fall beneath the floor above which government authorities are much concerned with compliance. The focus of South African government efforts to promote SMME development appears largely to be that of the small and medium-sized enterprises, not micro, and for this reason the focus of attention in this section is on them.

In many African countries, particularly those that have undergone liberalization, there has been an enormous surge in informal microenterprises engaged primarily in trading activities.

Simultaneously, formal sector small and microenterprises—particularly those involved in manufacturing activities—have been shrinking precipitously in number. Many economists have attributed these results to the closing of inefficient industries that were previously protected from international competition. In the South African context, this is particularly relevant in view of its transition from a highly protectionist, import-substitution economy to a more open economy. However, this disparity is attributable largely to the fact that the regulatory and legal environment is a barrier to the development and formalization of small-scale enterprises. Protectionist policies have been largely eliminated, but there has not been a corresponding reduction of regulations.

In most African economies, the informal sector is quite significant. For instance, some economists have estimated that approximately 14 percent of Kenyan and Ugandan trade can be characterized as legal. In the Ugandan capital city of Kampala, 28% of small scale enterprises operate illegally. Many small-scale operators argue that the high taxes and a harsh regulatory environment compel them to break the law in order to survive.

Often the informal sector acts as a safety net in countries where social security and pensions are nonexistent. Numerous entrepreneurs prefer operating informally since they do not have to deal with bureaucratic red tape. The following are some of the advantages to operating informally:

- Evading onerous business establishment procedures can reduce financial costs incurred by entrepreneurs
- Informal enterprises do not have to follow strict zoning, environmental and worker safety guidelines since they are not formally registered
- Informal enterprises can evade income taxes and strict labor policies, such as minimum wage requirements, minimum working hours, etc.

An overview of the regulatory requirements imposed on all formally organized businesses in South Africa from the perspective of a would-be investor appears as Appendix A to this document.

## **The Impact of Apartheid Laws on SMME Development in South Africa**

A thorough understanding of the nature of the informal SMME sector in Africa is particularly useful in the South African context. In many respects, apartheid laws added another level of constraints to SMMEs, particularly those owned by blacks, that essentially resulted in a massive informal SMME sector. Indeed, any analysis of the legal and regulatory constraints facing small and medium-sized South African businesses must begin with an assessment of the impact of apartheid-era laws.

The South African government's white paper on small business broadly outlined the following as the key constraints faced by small, black-owned businesses during the apartheid years:<sup>1</sup>

- Bantu education restricted opportunities for the acquisition of technical and professional skills by black people
- There was a total absence of entrepreneurial education or sensitizing young people in a way that could encourage them to enter business and acquire a culture of entrepreneurship
- Apartheid confined the majority of the African people to homeland areas that were not only the poorest in terms of living standards and business opportunities, but also lacked a dynamic business environment
- Even outside the homelands, the system of apartheid made it impossible for black would-be entrepreneurs to participate in business apprenticeships and partnerships with more established (non-black-owned/controlled) enterprises
- Racially segregated residential areas, enforced through the Group Areas Act, not only uprooted millions from their places of residence and business, but also led to large capital losses and virtually destroyed the fabric of black small enterprises
- Segregation increased the distance between black residential and working class areas, thereby increasing the cost and risk of conducting business
- The drastic curtailment of property ownership rights by blacks made it impossible for them to acquire assets that could serve as collateral for loan financing; it also excluded

blacks from the long-run process of capital accrual and growth through rising property values and share prices

- Apartheid left no real space for the business involvement of black women; marriage laws reduced women to unions with no contractual capacity at all; even though marriage laws have changed, customary law remains intact, and there are cultural, behavioral and attitudinal constraints that affect women's participation in business, particularly in rural areas.

If these constraints are further refined, it is possible to identify four apartheid era laws that were particularly harmful to the development of black business: The Job Reservation Act; the Native (Urban Areas) Act; the Land Act, and the Influx Control Act.<sup>14</sup>

#### *Job Reservation Act*

The Job Reservation Act, passed in 1924, is the primary reason why black South Africans have limited managerial experience. This law denied black South Africans on-the-job managerial or supervisory training and skills development. In effect, the act essentially "reserved" managerial jobs to whites.

#### *Native (Urban Areas) Act*

The Native (Urban Areas) Act specified the businesses that black South Africans were allowed to operate. Blacks were forbidden to run bookshops, garages, dry cleaners, pharmacies, etc. Black businesses were limited primarily to small-scale trade in foodstuffs such as beverages and porridge. A circular prepared in 1963 and distributed to all township authorities restricted those black entrepreneurs to a single business. In an effort to prevent any black businesses from competing with the white-owned conglomerates, the circular specifically prohibited the formation of black-owned financial institutions, manufacturing companies and construction companies.

#### *Land Act*

The Land Act of 1913 prevented blacks from owning land outside of racially designated areas. The legacy of this act manifests itself today in the inability of small black businesses

For a thorough analysis of the enabling environment for businesses in South Africa, see *Improving the South African Investment Climate*, Policy Study by the National African Federated Chamber of Commerce and Industry (December 1995).

to obtain capital. South African lending institutions require collateral in the form of land assets, which, in effect, excludes black businesses.

#### *Influx Control Act*

The Influx Control Act restricted movements by blacks into white cities and towns unless they had jobs. In effect, the act discouraged entrepreneurship by compelling black South Africans to direct their efforts to seek paid employment instead of encouraging self-employment.

### **Legal and Regulatory Environment for SMMEs in South Africa**

SMMEs in general face an overwhelming array of laws and regulations that hamper their development. When this harsh regulatory regime is coupled with the legacy of apartheid-era laws that deliberately sought to stifle the development of black small businesses, it presents an unprecedented challenge for policy makers, nongovernmental organizations (NGOs) and the private sector. The Small Business Project, a policy research organization devoted to small business development in South Africa, has described the regulatory regime for small business in South Africa in the following manner:

The competitive energies of many SMMEs are wasted on futile efforts to comply with inhibitive laws and regulations. There are thousands of laws, ordinances and regulations which collectively create an unfavorable business environment by restricting the abilities of small businesses to start up and grow. . . A preliminary research scan done by the Small Business Project has revealed that there are currently at least 152 laws on the statute book which aggregate barriers to entry and impose inordinately high compliance costs, to the point where market access for small-scale enterprises is effectively denied. Laws on labour standards, access to finance, owning a business, taxation, the court system, training and ownership of land impact negatively on small businesses, especially those who lack the resources to meet the high administrative and compliance costs inherent in many of these laws.

An analysis of all 152 laws and regulations is beyond the scope of this paper. Indeed, such an analysis could easily result in 152 separate reports. Instead, the analysis focuses on the four policy areas that are deemed to be the most problematic for SMMEs. This group of four policy areas was identified as a result of the consultants' meetings with dozens of small business people throughout South Africa, NGOs involved in SMME activities, and numerous South African government organizations involved in SMME policy issues. The policy areas are tax policy, finance/banking policy, competition policy and labor policy.

### **Tax Policy**

In South Africa, approximately 65 percent of small business income is being consumed by a broad array of taxes. These costs do not include the administrative costs assumed by small businesses in managing the tax burden or the costs associated with hiring tax specialists to manage tax compliance. Among the many taxes that small businesses must pay, the most important include the employees tax, the regional services levies, the value-added tax and the company tax. It has been reported that the average small business must file 46 different types of tax returns: 3 returns for income tax, 13 for PAYE (pay-as-you-earn) taxes, 6 for value-added tax (VAT), 12 for Regional Services Council (RSC) levies and 12 for the Unemployment Insurance Fund.

The speed with which tax returns have been processed has not been a problem for small businesses in South Africa; however, the problem is the excessive number of forms and filing requirements. Indeed, the following table gives an indication of the required documentation for various types of taxes, the number of times they must be filed, and their cost.<sup>15</sup>

The complexity of South Africa's income tax system has compelled many small businesses simply not to register and to remain outside of the tax net. It is clear that South Africa's tax structure is beneficial to big businesses. Small businesses do not receive the types of tax relief that are more commonly received by large companies (e.g. accelerated depreciation allowances for large capital investments).

Data in the table is drawn from *The Investor Roadmap: South Africa* prepared by The Services Group (TSG) and KMMT Brey for Investment South Africa, (September 1997).

## Regional Services Council

When any business in South Africa is established, it must be registered with the RSC in the region in which it is set up. The levy that must be paid consists of two elements: an establishment levy based on sales and a remuneration levy based on wages and salaries. These levies are intended to be used for improving transport and municipal infrastructure in black areas. Businesses must pay administrative returns on a monthly basis; they add an unnecessary burden to small businesses, particularly in view of the fact that total revenue generated nationwide by these levies is R2.1 billion.

**Table 5.1 Tax Returns and Filings Required of Firms Operating in South Africa**

Tax	Government Department	Frequency	Required Documentation	Cost
Corporate Income Tax	Receiver of Revenue	Provisional tax return required semi-annually	Form IRP 6	Varies
		Final tax return required annually within 6 months of financial year-end	Form IT14, Income Tax Assessment, Financial Statements	42% of taxable income
Pay-As-You-Earn (PAYE) Tax	Receiver of Revenue	Monthly	Form IRP 501	Varies
Value-Added Tax (VAT)	Receiver of Revenue	Bi-monthly, on either invoice or payments basis	VAT Form 201	14% of value-added
Regional Service Council Levies	Receiver of Revenue	Monthly	Varies based on locality	0.10-0.15% of turnover 0.25-0.35% of payroll
Unemployment Insurance Fund	Department of Labour	Monthly	None	1% of salary/wages paid (+1% usually paid by employee)

Workmen's Compensation	Department of Labour-Compensation Commissioner	Monthly	None	Varies, based on wages + risk of accident: 0.25-6 percent
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### **Simplification of Payments**

The Small Business Project, recommends that small companies with annual turnover of less than R250,000 be allowed to pay RSC levies on an annual basis or be exempted altogether.

### **Value-Added Tax**

When VAT was introduced in South Africa in 1991, a R150,000 annual threshold was set for small businesses in order to help reduce their compliance burden. The impact of an annual average inflation rate in South Africa of 10 percent has sharply reduced the real value of the VAT tax base, bringing into force an ever-increasing number of small and medium-sized firms. This has occurred despite the fact, according to the Katz Commission on Tax Reform, that approximately 90 percent of VAT revenue is collected from only 8 percent of registered companies. According to the Small Business Project, this warrants an increase of the annual threshold to R500,000.

VAT administration is extremely complex. Each VAT vendor must get a VAT registration number, file monthly VAT returns, and maintain detailed records of all transactions. The administrative costs of VAT compliance far exceed the revenue generated. A simplification of the registration process and the reduction of the filing requirements would be very helpful for small businesses.

The tax registration burden is problematic for all South African businesses; however, it is especially burdensome for smaller businesses that cannot afford to hire facilitators. A simplification of the tax registration and filing process would address a recurrent complaint made by small businesses in South Africa.

## **Access to Finance and Credit**

One of the most persistent problems faced by SMMEs in South Africa is the lack of access to finance. This is largely the legacy of apartheid, whereby commercial banks favored large, corporate conglomerates at the expense of small business. Even when small businesses could obtain access to finance, white-owned small businesses were the primary beneficiaries, since they were perceived as being more financially sound. The restriction of property ownership of blacks made it exceedingly difficult, if not impossible, for them to obtain assets that could be considered collateral for loans.

In general, capital is very expensive for small businesses in South Africa; this is the primary reason why most of them rely on personal or family financing. Approximately 75 percent of the small businesses in South Africa are financed by personal or family resources.

Commercial lending institutions account for only 6 percent of small-business financing. The prime rate charged by the Reserve Bank to commercial banks hovers in the 20 percent range. The average annual inflation rate of 10 percent in South Africa results in a real prime rate of 10 to 11 percent. However, once a small business finally obtains a loan, the interest rate can exceed 30 percent. These high rates are compounded by a tight government monetary policy that reduces the amount of cash available to banks to lend. With reduced funds for lending, South African commercial banks are even less motivated to engage in lending to the SMME sector, which they view as essentially unprofitable because of the disproportionately high transaction costs relative to the loan amounts (usually small), as well as the higher risk associated with lending to this sector.

South African banks are reluctant to lend to small businesses that do not have a banking history and prior business experience. There is an unofficial lending "floor" within South African banks of approximately R50,000. The official South African government usury rate ceiling of 31 percent for loans that exceed R6,000 reinforces the lack of motivation mentioned above, since one means of addressing the transaction cost and risk factors is to set interest rates high enough to cover them. Indeed, the lack of full cost recovery interest rates poses one of the most critical constraints to increasing access to finance for small businesses.

## Competition Policy

Many small businesses in South Africa have identified competition policy-more specifically procurement policy-as one of the key constraints facing SMMEs in South Africa. Historically, competition policy has been very weak in South Africa. There have been very few judgments against mergers of South African companies; the result has been an increase in the number of large conglomerates.

The Maintenance and Promotion of Competition Act of 1979 does not actually prohibit restrictions on competition. Instead, it grants the Competition Board the power to investigate three aspects of business: monopolies, mergers and acquisitions, and anticompetitive practices. The Competition Board also advises the Department of Trade and Industry on competition policy. The board itself cannot impose sanctions on companies that are in violation of the act; instead, it recommends appropriate action to the Minister for DTI.

F.C. Fourie et al. prepared a working paper on competition policy in South Africa entitled *Towards Competition Policy Reform in South Africa: A Background Working Paper*, in which they identify a number of the weaknesses of the existing competition legislation, particularly in terms of the needs of small businesses:

### ***Weak Organizational Structure***

Most Competition Board members serve part time. The chairman of the board has very little support in the form of technical staff. The board has very limited financial resources which prevents it from conducting investigations of companies.

### ***Insufficient Use of Investigative Authority***

The lack of political support within the South African government's cabinet agencies has impeded the ability of the board to use its full investigative authority. The lack of financial resources has hampered the effectiveness of the board's investigative division.

### ***Nontransparency***

Because of the secrecy of Competition Board deliberations, it is difficult for the public to monitor its activities.

### ***Limited Access and Information***

No formal mechanisms in place whereby grievances can be addressed in an open manner.

***Lack of Policy Coordination***

No effort has been made to coordinate competition policy with other policies, such as trade policy or tax policy. The result is that competition policy is essentially an "island unto itself."

In summary, Fourie et al. believe that the Competition Board lacks the institutional clout to meaningfully implement competition policy.

The Small Business Project argues that the concentrated market structure in South Africa whereby a small number of firms dominates product markets is the most serious barriers to SMME market access.

**Labor Policy**

In discussions with small business owners, labor regulations imposed by the Basic Conditions of Employment Bill were frequently mentioned as impediments to their activities. With respect to the Basic Conditions of Employment Bill, the key characteristics are arrangement of work schedule and leave entitlements.

***Arrangement of Work Schedule***

The bill proposes a reduction of the work week from 46 to 45 hours. Payment for overtime is increased to time and a half. A weekly limit of ten hours per week applies for overtime. Employers have the option of exchanging overtime or Sunday work for time off.

The bill proposes flexibility in the arrangement of work schedules; however, small businesses are still burdened by the strict regulation of work time and the reduction in the workweek.<sup>2</sup> Many small businesses require overtime, night work and Sunday work; the restrictions on these activities have the potential to reduce the business' productivity and competitiveness, and eventually run them out of business.

***Entitlements to Leave.***

The Basic Conditions of Employment Bill increases maternity leave from 3 to 4 months. It also reduces the period during which women may be prohibited from working from 12 to 10 weeks. There is no paid maternity leave; however, women are entitled to full job security, and they are eligible for 45 percent of their salary from the Unemployment Insurance Fund.

These leave policies can hurt small businesses, because they can result in long periods during which productivity is reduced. Little or no flexibility is exercised in their application to small businesses.

## **6. Export-Led Growth Potential**

To determine sectors in which export-led growth potential exists, it is necessary to look at South Africa's comparative and competitive advantages. The first, strongest comparative advantage is the country's resource base. In addition to its natural resources-coal and a wide variety of metallic minerals, arable land and fisheries-it has an established industrial base, particularly impressive in the areas of capital-intensive, basic-materials production, and developed infrastructure. It does not offer, however, the two elements that, as earlier noted, have served since World War II to fuel FDI and export development: a large and attractive domestic market and low-cost, productive labor.

### **Mining**

South Africa's major exports have been minerals, including ores, concentrates and primary metals, such as iron and steel. In addition to substantial carbon steel manufacturing capacity, South Africa also produces ferro-manganese, stainless steel and aluminum.

The mining industry is currently undergoing considerable restructuring, in terms of both ownership/management and production. The various conglomerates that dominate the industry are in the process of selling off less productive assets, separating out distinct businesses and recombining the pieces into what is hoped will be more efficient entities. They are also increasing their investment activity outside of South Africa, with special interest in sub-Saharan Africa. As a result, some 200,000 workers have been let go, with management and investment concentrated on those properties that offer the best operating results.

#### **Selected Characteristics of South Africa's Mining Industry**

South Africa's chief exports  
Industry is presently undergoing considerable restructuring  
South Africa's corporations are increasingly investing outside of South Africa  
Not projected to serve as new sources of employment  
Limited opportunities for SMMEs

Some of the older and less productive facilities have been sold or transferred to smaller companies that, with lower overhead costs and more modest business structures, can operate them profitably for some period of time. Further attention is also being paid to using new technologies to recover precious metals, such as gold, from mine tailings, which have been judged uneconomical to process in the past. Despite volatile global market conditions, including the recent fall in the gold price to a level not seen since 1985, South Africa's mining and basic metals industries show signs of adjusting to global market conditions and can be expected to continue to provide a base of export earnings.

Prospects for future growth are mixed. There is no particular reason to expect metallic gold to move much beyond its present price range. Diamond production is growing in areas outside South Africa, and there is strong suspicion that diamonds are quite likely priced artificially high, owing to the cartelization of the trade in cut stones under the leadership of the DeBeers group and its Central Selling Organization. Chromium and manganese are tied closely to developments in the market for steel and steel alloys. During times of economic downturn, consumption and market prices decline. In general there is an excess in world capacity for steel production, with the European Union, for example, still working to rationalize its industry.

Recent press reports indicate that the Russian supply of platinum is nearly exhausted which will leave South Africa as a source of 60 percent of the world's proven platinum reserves.<sup>16</sup>

At present, there is no installed capacity to permit increased production in South Africa of this metal, but given the available reserves, new investment to expand production to meet apparently unfulfilled world demand is expected.

Planned expansion of the bulk-handling coal port at Richards Bay, KwaZulu-Natal, will permit growth in exports of bulk coal. The coal mining industry in South Africa is very much a part of the general restructuring of the mining industry and is part of the same process of divestiture, acquisition and restructuring as experienced by the metals houses.

Opportunities for SMMEs within these industries, given their capital intensity, are extremely limited, although a few, very small mining

Cape Times Business News, 19 November 1997.

operations have been started, working at marginal ore deposits or tailings unattractive to the large firms, which can be exploited with labor-intensive techniques. The mining and basic metals industries are not likely, however, to serve as sources of new employment for some time to come, if ever.

## **Basic Metals**

What the basic metals industries can provide, however, is raw material for fabrication into a variety of finished goods. Columbus Steel in Middelburg, Mpumalanga, recently completed a US\$1 billion investment, partly financed by Japanese capital, to expand production capacity to a potential 600,000 metric tons (mt) annually of stainless steel, making it the sixth largest stainless steel plant in the world. The company intends to export as much as 90 percent of the output, but the remainder is adequate to supply significant downstream manufacturing of such products as cutlery, kitchenware, medical equipment, specialized pipe fittings, valves, tubes and wire. South Africa already has two companies manufacturing large liquid storage tanks of stainless steel.

Production of aluminum metal is expected to expand both from a proposed new refinery within the "Maputo Development Corridor" in Mozambique, with strong involvement from public (Industrial Development Corporation [IDC]) and private (Billiton) South African involvement in the venture. Hulett Aluminum and Alusaf have signed a strategic technology agreement designed to expand domestic production of aluminum as well. Hulett, whose main business is rolling aluminum ingots into sheet, plans to spend R200 million to develop a new re-melt and recycling facility for the recycling of aluminum scrap. Alusaf's Bayside refinery has been the sole supplier of primary aluminum for the past 25 years, but with the expansion of Hulett's capacity to further process primary aluminum, Alusaf expects to expand its line production capacity from 50,000 mt to 150,000 mt annually.<sup>17</sup> Aluminum is widely used in the automotive, building material and housewares industries. A modest volume of automotive motors made with aluminum blocks is currently exported from South Africa.

At the site of the present bulk-handling port for iron ore at Saldanha Bay near Cape Town, a new firm, Saldanha Steel, has been established by ISKOR and the IDC to build a "mini-mill" that will

*Cape Times Business News, 18 November 1997.*

convert a portion of the iron ore now being exported to steel. This should prove a source of material for downstream metal fabrication, especially in the Western Cape Province.

## **Manufacturing**

The question is which product lines or sectors of metal fabrication offer export potential. As Brian Levy commented after a 1991 study of the South African economy, "It is rather less clear where the competitive advantage of South Africa's manufacturing sector is to be found."<sup>18</sup> An interesting comment on recent trends in South African exports of manufactures is that improvements in manufactured exports during recent years have been largely confined to only five industries: food processing, paper, chemicals, steel and nonferrous metals, and vehicles. Distinguishing characteristics of these industries likely to ensure further success are that:

- They are mature industries with well-established, domestic production bases; combined they contribute 57 percent of domestic industrial production and 63 percent of manufactured exports.
- They are made up of a relatively small number of large companies with strong and cohesive industry representation at both national and regional levels.
- They have all recently undertaken capital-investment programs focusing on improving technology and capital efficiency, as well as expanding capacity.
- They have a culture of exporting, concentrating on both expanding and diversifying their export markets.<sup>19</sup>

Of the five industries, food processing and automotive manufacturing are only moderately labor intensive; the other three industries are capital, rather than labor, intensive. This illustrates one of the salient features of South African industry: It is historically oriented to capital-intensive investment. Parastatals such as SASOL and MOSSGAS in the 1980s illustrated this tendency to megaprojects that used up millions of rand but generated little in the

Brian Levy, *How Can South African Manufacturing Efficiently Create Employment?* (Washington, DC: World Bank, 1992).  
Nedcor, *Guide to the Economy*, (Second Quarter 1997).

way of employment. Other examples include the aforementioned aluminum smelters, steel mill and the just-completed stainless steel plant. The Services Group's industrial targeting studies have generally found much more resonance among South African promotional groups for large-scale projects - zinc refineries, direct reduction steel mills, manganese smelters, oil refineries, phosphoric acid plants and shipbuilding - and substantially less interest in smaller scale, but labor-intensive projects, and even less interest in rural development.

The historical basis for this attitude probably lies in the trend during the 1980s toward capital-intensive investment, partly in support of "strategic" objectives, but also to avoid labor and other social problems inherent in the apartheid period. Now this attitude probably reflects both the historical experience and the assumption widely held in the country that South Africa is not competitive in manufactured goods, but only in resource-based production (e.g. steel and nonferrous metals). Resource-based production extends, of course, to nonmineral products, including marine and timber-based products, and selected agricultural crops that support such industries as wine, food processing, paper and furniture.

The problem is that keeping to this approach will mean that manufacturing will not contribute on balance in the short or medium term to job creation. In fact, employment in the formal sector has declined. According to South Africa's Reserve Bank, "Total formal sector employment outside agriculture increased only once during the past seven years, when the average level of employment rose marginally in 1995."<sup>20</sup> During the same period, nearly 400,000 jobs were lost in the formal sector, representing a drop of nearly 7 percent. Mining, construction and manufacturing have been overwhelmingly responsible for the losses. The trend is continuing this year with additional losses in both manufacturing and mining. Mining is expected to be further hit by the sharply lower gold price. In contrast to the trend in private sector employment, public sector employment increased by 110,000 during this same period.

### **Import Impacted Manufactures**

Among the manufacturing sectors especially hard hit have been apparel, textiles and footwear. Each of these industries, along with the automotive sector, is involved in restructuring both to become

SA Reserve Bank, *Quarterly Bulletin*, quoted in *Sunday Times*, 16 November 1997, 10.

competitive against imports flowing into South Africa as a result of lower tariffs and to develop the capacity to export. Exporting is viewed as the answer to the lack of growth and small size of the domestic South African market.

The textile (fabric and yarn) industry has been forced by changing market conditions to take steps to lower its production costs. Major producers, such as Frame, have invested in more modern equipment and improved their production processes (and shed labor) in an effort both to meet import competition and to export successfully. It is expected that these efforts will pay off in the near term.

South Africa's clothing industry is divided between the Western Cape, where manufacturers have generally targeted higher-value, quality garments, and KwaZulu-Natal, where the emphasis has been on lower-priced garments for the domestic market. All sectors have been adversely affected by trade liberalization, but the KwaZulu-Natal producers seem especially hard hit by clothing imports, both legal and illegal. One of the techniques to lower costs is to subcontract sewing operations to smaller firms, including microenterprises. South African organized labor opposes this trend, fearing that wage and job safety standards, not to speak of worker benefits, will be ignored with respect to people working for these subcontractors or acting as self-employed. The danger to strong opposition by labor to subcontracting is that apparel makers will shift to offshore sewing operations, in effect exporting jobs from South Africa to Zimbabwe, Botswana, Malawi, Angola and elsewhere.

South African clothing manufacturers export to niche markets in Europe and the US with the successful product lines sold on the basis of design and quality, upscale market segments which are not as price sensitive as the bulk of garments now being exported from developing countries (e.g., Mauritius). To some extent, current exports are supported by government subsidies. The Duty/Credit Certificate Scheme (DCCS) grants exporters of selected textile and clothing items certificates for the value of the authorized items exported, which can be used to offset import duties on materials brought in by the industry (e.g., yarns, synthetic filaments and fabrics). Given the high tariff rates applying to these items, the certificates have considerable value and make economically feasible the export of goods at manufacturing cost, since the exporter profits from the exchange value of the certificate acquired by an importer. This is unacceptable by GATT rules and will be phased out early in the next century. Meanwhile it tends to inflate

export levels beyond what should be expected, but in theory offers a period of time for the industry to become more competitive.

SMMEs can and do play a role in the production process, usually as subcontractors. Given the importance of marketing and market knowledge in this process, this appears to be an area in which historically disadvantaged entrepreneurs could benefit from tie-ins with clothing houses in Europe and the US, which would supply the styling and distribution inputs to enable them to manufacture directly for export. This could be especially true for the "Afrocentric" market in the US. While it is a relatively small niche market in American terms, growing interest in their African heritage among African Americans offers an important market. The 25 million or so African Africans alone represent a market larger by far than any single national market on the continent of Africa.

South Africa's footwear industry, centered around Durban, has been hard hit by a reduction in the level of protection. In total, footwear industry sources state that production declined from a level of 88 million pairs in 1989 to 1996's output of about 48 million pairs. Over the same period, the industry's contribution toward manufacturing employment declined from 2.3 percent to 1.8 percent.<sup>21</sup> Import duties, which had been at 41.2 percent, have been reduced and are scheduled to fall to 28.9 percent by 1999. This is still a relatively high level of protection compared to world standards and other South African industrial sectors.

#### **Important Points: South Africa's Footwear Industry**

South Africa's footwear industry has been hard hit by a reduction in the level of protection.  
The industry is centered around Durban.  
Total production declined from 88 million pairs in 1989 to 1996's output of about 48 million pairs.  
The industry's contribution toward manufacturing employment declined from 2.3 percent to 1.8 percent.  
There are more than 100 SMME firms involved in the footwear industry in KwaZulu-Natal.  
South Africa's supply of quality leather is inadequate.

SMMEs are involved in the industry, there being more than 100 small firms involved in KwaZulu-Natal. The industry sees export

Harry Naicker, Managing Director of Coastal Components, quoted in *The Cape Times*, 13 November 1997, .27.

opportunities in medium-to-high-priced leather products, especially men's shoes. An important consideration will be the development of competitively priced material inputs. Companies like Coastal Components will need to continue to restructure manufacturing operations to reduce unit costs of the synthetic, rubber and other components they supply the industry. Another problem is that South Africa's supply of quality leather is inadequate, forcing manufacturers of high-quality leather goods to import much of their primary material.

There should be opportunities for small and medium-sized footwear makers to enter into subcontracting agreements with overseas footwear manufacturers, especially those in the upper-scale market segments, an industry currently centered in Italy. Ironically, at least one maker of quality shoes in South Africa imports its leather uppers from Italy, a situation that South Africa needs to reverse. Temporary relief has recently been granted this industry by the South African government in the form of quantitative restrictions (quotas) on shoe imports. This can only be a temporary measure, and the requirement that this industry restructure and modernize its production facilities remains in force.

Considerable attention has been given in the press to the automotive sector, especially those cases in which products are successfully exported. In a manner similar to the above-described DSSC program, the automotive industry has a Motor Industry Development Program (MIDP) designed to ease the transition of the industry from a highly protected, high-cost producer to one that is competitive globally. Initiated in 1995, the program has brought about significant changes. The fundamental problem for the industry is that there are too many carmakers for the size of the domestic market.

In an address in November 1997, the managing director of Volkswagen South Africa said that the motor industry was facing a structural and strategic crisis.<sup>22</sup> In addition to serving a domestic market too small to support the five largest South African assemblers, the reduction of tariffs from 115 percent to 57.5 percent on automobiles manufactured abroad and imported has permitted such imports to capture between 20 and 25 percent of new car sales. The net result is that the passenger automobile industry in South Africa is operating at about 70% of its installed capacity. The incentive bias in the new MIDP program towards smaller, "entry-

Don Robertson, quoted in *Sunday Times*, 16 November 1997, 12.

level" automobiles aggravates the situation. In September 1997, entry-level cars made up 41 percent of automobile sales, as compared to about 32 percent in January.<sup>23</sup> The shift to lower-priced units has a disproportionate effect on automakers' profits; profit margins generally are higher on the more expensive units.

In trucks and commercial vehicles, reductions in import duties have reduced the South African industry to the assembly of selected models from knocked-down kits and the import of finished vehicles in other categories. Atlantis Diesel, two-thirds owned by the IDC, is shifting from an assembler of complete diesel engines to an engine component supplier and a hoped-for role as a components exporter, rather than supplier of complete engines to the domestic market. Complete engines are imported from abroad.

An apparent softening in the consumer market for automobiles threatens to worsen the situation. Nevertheless, South African automakers have continued to manufacture at scheduled rates set early in the year and now have an overhang in inventory. Slowdowns in manufacturing will, of course translate into slowdowns in purchases from components suppliers. Profits and employment in the components sector are declining, and the number of companies in this field is expected to drop from 180 to about 100 by the year 2002, when the MIDP ends.<sup>24</sup>

The announced strategy of the industry is to restructure and become competitive as part of the global automotive market. Success in exporting selected completed vehicles and components has been achieved. Niche markets in components that are now being exported include catalytic converters, aluminum alloy wheels and leather seating material. Exports of vehicles to Japan, China and Australia have been in small volume, but represent additional market for the local industry. With respect to vehicles, South Africa could become the center of production for right-hand-drive vehicles for the German industry - BMW, Mercedes-Benz and Volkswagen, all of which have assembly plants here.

The availability of relatively inexpensive aluminum provides opportunities to expand the production of automotive wheels and to enter into the production of automotive engines utilizing cast aluminum alloy blocks. Some engines in this category have been exported from Port Elizabeth.

Robertson, *Sunday Times*, 12.  
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**Important Points: South Africa's Automotive Industry**

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Exports of vehicles to Japan, China and Australia have been in small volume, but represent additional market for the local industry.

Success in exporting such items as catalytic converters and leather upholstery material (the leather prime material is imported) needs to be qualified. First, South Africa's balance of trade in the automotive sector, including built-up vehicles, components and commercial vehicles, remains negative by a factor of about 2 to 1 (1996 exports R2.6 billion, imports R5.9 billion). Second, there is the distortion deriving from government policy. The MIDP, like the certificate scheme described for the textile and clothing industries, offers substantial subsidies. These are not direct, but rather come from granting certificates for the value of exports that can then be used by automobile makers to import an equivalent amount of goods duty free. Since the current import tariff on automotive components is 42 percent, an export certificate in the value of R1 million, for example, has a potential value of R420,000 to a qualified importer. Splitting the difference between the exporter and importer-or if it is the same company generating the tariff savings-makes feasible exporting converters, wheels and upholstery at the manufacturing cost, with the profit deriving from the savings in import duties. This system too is contrary to GATT and is scheduled to end in 2002.

True competitiveness will come only when the total cost, including an adequate profit margin, fits within international pricing structures. A majority of the companies that supply automotive components are in the small to medium-sized category. There are some major players, of course, including Dorbyl, T&N Holdings and Shatterprufe; but the smaller companies are the ones most at risk in terms of modernization of their production in terms of cost efficiency and quality control.

This explains the especially strong interest in the Eastern Cape Province, still the major center for the motor industry, in assisting this group of mostly white-owned, small manufacturers to upgrade. This also explains why the first Manufacturing Assistance Center was opened in Port Elizabeth. Development of this industrial subsector requires that their manufacturing processes conform to the purchasing standards of an industry moving to just-in-time inventory of high-quality items delivered at competitive prices. Additional capital investment in higher-technology manufacturing and quality control are, in most instances, prerequisites to this transformation. An illustration is the manufacture of automobile engine pistons. Two plants employing 300 people each were modernized recently; they now produce triple the volume but employ only 20 people each. Current employment in this subsector of 44,000 could drop to 15,000 in the next five to six years if modernization programs are carried out completely. The industry would prefer additional import protection from the government.<sup>25</sup>

### **Light Manufacturing Prospects**

Relative labor costs have become less and less a consideration, as brought out in Section 2. South Africa does have background, however, in flexible manufacturing. Owing to serving a small market with a wide variety of products, manufacturers are accustomed to short production runs and maintaining the ability to manufacture to a variety of specifications. Manufacture of products required in small numbers is not readily automated. Furthermore, major manufacturers are rarely interested in making anything in less than mass production runs. So there become available niche markets supplying automotive components for car models no longer in production, custom or specialty items, and after-service products. Hopefully the automotive components industry in South Africa can be developed into an effective production cluster, tying in the major assemblers, worldwide distribution and supporting product and service suppliers.

Continuing a look at prospects for relatively labor intensive light manufacture and potential tie-ins to SMME development, downstream manufacture of stainless steel products from material produced by Columbus Steel offers the potential to develop an industry cluster. The South African Stainless Steel Development

Clive Williams, executive director, National Association of Automotive Components and Allied Manufacturers, interview, 23 September 1997.

Association (SASSDA), which now has a membership of 350 companies, along with training, marketing and technical assistance programs for its membership, is in the process of establishing networks. One of the objectives of these networks is to set up linkages between firms of all sizes. Niche markets suitable for SMMEs include less complex components, such as brackets or polishing stainless steel manufactures, a process required for kitchenware and utensils preparatory to shipment.

SMMEs are also active in iron and steel fabrications, products like decorative wrought iron, gates and fencing. Small scale producers of plastic and other, engineered metal products, generally act as sub-contractors to larger firms. Small-scale manufacturers of custom and upholstered furniture, as well as of footwear, sell mostly to retail outlets with the micro-sized firms selling directly to customers, usually those found in their communities.

One can argue, as Brian Levy does<sup>26</sup>, that South Africa's social health and future prosperity mandate a shift from highly capital intensive to high value more labor intensive industrial investment as a means of employment generation and more equitable economic growth. There is no easy path to this goal owing to the established nature of South African industry. As established, South African industry may well prove globally competitive once it completes the current restructuring and modernization process, but the process as it evolves presently offers little hope for accelerated job generation or a major role for SMMEs.

### **Services and Agribusiness**

There is a role for historically disadvantaged SMMEs in light manufacturing, but working against the constraints already enumerated, it is a role likely to require considerable time in which to evolve as a significant employer and contributor to the economy. Other areas that offer faster prospects for development are an array of service industries and the agricultural and animal husbandry fields.

Starting with the most difficult, further export growth for South Africa in agriculture, meat, leather and processed food products requires two developments: an increase in supply and a shift to higher-value

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Brian Levy, "The Business Environment for South Africa's Industrial Small and Medium Enterprises", (Washington, DC: World Bank, October 1995), 27.

products. The supply constraint revolves in turn around two issues: structural constraints to trade (i.e., concentration of virtually all agrarian production within tightly controlled, white-owned cooperatives under the authority of marketing control boards) and serious problems of land tenure. The control boards are being deregulated and, over time, producers and distributors will launch off in new directions, opening new markets and offering new opportunities to new players. For example, the Minister of Environmental Affairs and Tourism has presented to Parliament a Marine Living Resources Bill, which, among other things, will abolish the present Fisheries Quota Board and open up fisheries to historically disadvantaged groups.

A further development already in process is the conversion of farmers' cooperatives into commercially registered companies. The process is not without controversy; some conversions have been delayed pending clarification of policy issues, but this development places agricultural and animal husbandry resources under a corporate structure, with shareholders, boards of directors and the possibility of public listing of stock, followed by mergers, acquisitions, divestitures and restructuring of the industry. A shareholding structure will also permit investment by black empowerment groups and/or cooperative employees, including members of disadvantaged groups.

Economist Michael De Klerk at the University of Cape Town has completed research that indicates that unbundling deciduous fruit production into plots of around ten acres each, owned and operated by former employees and families, can actually be more profitable than the current large cooperatives.<sup>27</sup>

Other prospects include developing production of selected horticultural and fruit items with higher value than traditional production of wheat, maize or sugar. While feasible, development will take time and capital. A case in point is the IDC's pistachio project. After several years of research and experiments, a site was selected near Prieska in the Northern Cape Province to plant 250,000 trees. The first commercial crop is expected in 2000, by which time the IDC will have invested about R60 million in a labor-intensive crop with a combination of equipment and people needed for harvesting and processing.<sup>28</sup> The IDC and other institutions have other nuts, fruits and berries, as well as specialty vegetable items,

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Michael De Klerk, University of Cape Town, Department of Economics, interview, 6 October 1997.

Justine Nofal, "Inside Agriculture," *The Cape Times*, 14 November 1997.

under consideration for similar development. The objective is to develop items that are relatively labor intensive, but that have high enough value to provide an adequate rate of return on the investment.

Animal husbandry, a source of wool, mohair, hides and meat, could be a source of more exports, but needs expanded production and lower production costs. In present circumstances, South African producers of poultry and lamb are not competitive against imports in their home market. The leather industry suffers from a lack of good-quality bovine hides. Market opportunities to add value to mohair and wool locally are limited to a degree by supply constraints.

Development of agriculture and animal husbandry confronts a very serious constraint, one that also impedes rural development: The issue of land tenure. Issues of redistribution of land from white-owned farms, ownership of land in the former homelands and in tribal communities, and in general a dearth of proper land titling call into question who may use land and for what purposes. Progress on resolving this issue appears to have been slow to date, which is not surprising, given the complexity and emotions involved. Resolution of South Africa's problems of equitable social and economic development would be greatly furthered with a major program of rural development. In the meantime, investment in animal husbandry is discouraged by the lack of rural security; livestock theft is a serious problem with no solution in sight.

#### **Selected Characteristics of South Africa's Services and Agribusiness Industries**

Further export growth for South Africa in agricultural, meat, leather and processed food products requires two developments: an increase in supply and a shift to higher value products

Animal husbandry, a source of wool, mohair, hides and meat could be a source of more exports, but needs expanded production and lower production costs

With the ending of South Africa's isolation, tourism has grown; the industry is labor intensive and currently suffering from severe staff shortages

The construction industry plays a role in exports in that larger South African engineering firms have been active in other countries in Africa in designing and managing large scale industrial, public sector and commercial projects

Information technology/telecommunications is a very active sector in South Africa

Areas of strong potential economic growth for South Africa are in the services sector, including tourism, financial services, information technology, transport and distribution, construction and engineering services, shipbuilding/servicing, office/headquarters support and entertainment/media development. Within the tertiary (service) economic sector, trade, transport and finance accounted for 38.7 percent of South Africa's GDP in 1993 and represented 26.5 percent of formal sector employment,<sup>29</sup> indicating that South Africa is following world trends in which the tertiary sector becomes the largest single source of employment and GDP. Parenthetically, general government, another service sector component, generated 14.8 percent of GDP but 19 percent of formal sector employment during the same period.

With the ending of South Africa's isolation, tourism has grown. In 1994 the rate of growth was impressive, as compared to earlier years, and encouraged substantial investment in new hotel capacity. Growth was modest in 1995, stable in 1996, and is showing some increase in 1997. Statistics are not particularly reliable, but, foreign visitors are believed to exceed 1.5 million annually. Much of the early euphoria in South Africa over tourism prospects has faded; the fact remains that the country is a long-haul destination; to be effective, tourism promotion efforts must link with similar efforts elsewhere in Africa. National promotion under the direction of the Environmental and Tourism Affairs Department and SATOUR, the government agency, have not been especially effective, and their efforts are not coordinated with those of nearly every province in South Africa, most of which have plans for casino and related tourism developments.

The industry is labor intensive and currently suffers from severe staff shortages. A recent government report found only 5,000 to 6,000 trainees enrolling annually for 35,000 to 50,000 available positions in the industry.<sup>30</sup> It is closely tied to the food service industry, which in South Africa has grown at a rate approaching 40 percent annually over the past five years, resulting in 8,000 food service establishments in the country now.<sup>31</sup>

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J. Du Toit and H.B. Falkena, *The Structure of the South African Economy*. (ABSA Bank, 1994).  
Environmental and Tourism Department, "Tourism Training Resources and Needs in South Africa," (Pretoria, November 1997).  
Lucia Mutikani, "Food Services Industry Grows 40% Annually," *Business Day*, 7 October 1997.

Small and medium-sized enterprises can and do participate in tourism, running small guest houses, bed and breakfasts, laundry services, tours and the sale of a variety of local goods and handicrafts.

The construction industry plays a role in exports in that larger South African engineering firms have been active in other countries in Africa, designing and managing large-scale industrial, public sector and commercial projects. In terms of its effect on SMMEs, South African government procurement policy has opened the public sector construction market with 37 percent of the construction awards made so far in 1997 going to "emerging businesses."<sup>32</sup>

The information technology/telecommunications sector is very active in South Africa. Use of computers is well established in major financial, retailing and manufacturing firms. Internet services are available from numerous providers. About one third the personal computers sold in South Africa are assembled locally from imported components. Mergers and acquisitions within the field have been numerous, with the latest being the acquisition of a 50 percent interest in PQ services by Real Africa, a black investment group. Most global manufacturers, including US, European and Asian companies, are represented in South Africa.

The main element in this industry is skilled talent. South Africa is short of these skills, and participation by individuals from historically disadvantaged groups is limited, owing to lack of appropriate educational facilities.

Television production in South Africa is modest in volume, with most entertainment features imported foreign productions, principally from the US. Despite limited facilities, but attracted by unique scenery and the availability of experienced staff, foreign companies have made several feature-length films in the country. Investment in modern studio facilities and expanded training of technically skilled staff could turn South Africa into a major African source of filmed or electronic entertainment.

## **Trade Diversification**

Basic patterns of South African trade are described in Section 3. South African government and industry have indicated a strong

Deen Letchmiah, quoted in *Business Day*, 18 November 1997, 3.

interest in diversifying export markets. The DTI has developed what it calls a butterfly approach to trade diversification. Figuratively speaking, the body of the "butterfly" is Africa, while the wings extend westward to Latin America and eastward to southern Asia and Australasia.

With the end of apartheid and the coming of democratic government, South African businesses are now able to enter Southern African markets rather easily. Major investments are now flowing from South Africa to its northern neighbors, ranging from breweries to mines to retail stores and transport services.

The expansion of South African trade, investment and influence into these countries is not entirely welcome, as fears arise of South Africa acquiring dominance. A major problem is lack of purchasing power in the SADC countries, compounded by South Africa's reluctance to open its markets to imports. Trade figures for 1996 indicate total South African exports to Africa of R15.4 billion, compared to imports of R3.7 billion. More than a third of South African exports to SADC are manufactures, about three times the ratio for exports to the EU. During the past three years, SADC has provided South African exporters a new market, but trade imbalances of this magnitude are not sustainable for long.

In the longer term, as the African market grows, South Africa should benefit as its established manufacturing base, financial resources and business organizations give it the capacity to invest and trade in the region. As part of the continent, it is also far more logical for South Africa to focus on nearby markets that for much of the rest of the world remain remote and uninteresting. In the short to intermediate term, the continent may well serve as an investment objective, but further growth in trade in manufactures and processed consumer goods will be sharply limited by low levels of income and continued economic instabilities.

South Africa's traditional principal export market has been Europe, which remains the destination of 30 percent of exports (excluding gold) with Asia ranking second, accounting for 20 percent. Africa, at 12.5 percent, outranks the Americas (8.5 percent) as an export market. Within the Americas, the US accounts for about 60 percent of South African exports. The percentages for each market show significant improvements since 1988, but this reflects the statistical anomaly of excluding gold from the figures, which were lumped into an "unclassified" section and not broken out by destination. In 1988 "unclassified" exports represented 51.8 percent of total export value, but this declined to 27.2 percent in 1996. The value of

metallic gold exports currently is estimated at around 18 percent of the total, but it alone generates a trade surplus large enough to provide South Africa a positive balance of trade while running sharp deficits with Europe and the US.<sup>33</sup>

South Africa would like to direct its trade more to a "South-South" axis, in which, over time, Africa, South Asia, the Far East and South America would become the preponderant trading partners. Actual changes in trading partners over the years appear modest, but whatever changes have taken place have been masked by the exclusion of gold exports and, until 1994, imports of petroleum.

With respect to existing markets, South African exporters are entitled to General System of Preferences (GSP) preferential access to the US for some products, but access to the EU does not enjoy preferential treatment. South Africa's membership in GATT is as a "developed" country, and while it has obtained time to transition itself into WTO/GATT compliance, South Africa should not expect the same tolerance of protective and transition measures as would be accorded a truly lesser developed country.

Negotiations with the EU for a "free trade" agreement covering an agreed range of products has been ongoing for three years without resolution as yet, and South Africa's application for associate membership in the Lome Convention also is still pending.

Interest has been expressed in expanding trade relations with India and China, two large Asian emerging markets. Two political actions, the end of apartheid and the change of diplomatic recognition from Taiwan to the People's Republic of China, have made trade feasible. The opportunities for South Africa, however, appear far more concentrated on the export of mineral resources such as coal, iron and steel than for manufactures. In the case of China, for example, South African exports in 1996 were only R810 million, with imports from China at R2.5 billion, reflecting imports of low-priced consumer goods such as clothing and footwear. Continued trade with Taiwan is closer to balance, with South African exports of R3.1 billion and imports of R3.6 billion. With the end of apartheid, India has opened trade with South Africa, which appears to be expanding after a slow start in 1995. Indian officials have expressed great interest in South Africa's phosphate rock, coal, fertilizers, iron and steel, and wool, while talking about supplying the

R.A. Downing and J.F. Grobler, *A Presentation of South Africa's Foreign Trade*, (ABSA Economic Research, 1997).

South African market with Indian apparel, fabric, yarns and pharmaceuticals. In both cases, South Africa's trading partners - and not South Africa - will wind up with the preponderance of employment-generating manufactures resulting from the trade.

### **Summary List of Prospective Areas for SMME Growth**

Identification of promising clusters offering better-than-average prospects for economic growth, especially export-led, has been a process engaging provincial government development agencies, the DTI and the IDC, for the past three to four years. According to Ntsika, the DTI's current role model clusters are plastics, mining equipment, automotive products, wheat milling and baking, and wool and mohair clothing. Other sectors not necessarily associated with clusters, but considered to have growth prospects, include fabricated metal products, security equipment, furniture, leather, footwear, foodstuffs and agribusiness. Further additions to the list derived from research by the IDC are textiles, craft items, travel and tourism, kitchen fittings and giftware. Ntsika appears interested in forming white-black partnerships and involving the EU and other institutions in developing partnership programs with SMMEs to foster development and exports.

The Services Group has been a part of this process and would agree with a number of the selections above, but not all. The important thing to keep in mind in setting up to assist small and medium-sized enterprises to grow is that successful entrepreneurs from historically disadvantaged groups exist in all sectors of the economy, from mining to cut flowers to engineered products to food processing and computer services. Their presence in the overall formal sector is small, but disaggregating the numbers can be interesting.

#### **Prospective Areas for SMME Growth**

Metal fabrication  
Furniture  
Clothing  
Food processing  
Service sectors

Figures issued by Khula (see also Table 7.1) indicate that there are 2,000 to 3,000 black-owned enterprises in the metal and manufacturing areas. Black businesses represent only 6 percent of the commercial bank business loan portfolio, but this must translate into thousands of businesses. The logical approach, then, is to identify individual businesses that meet program criteria and offer potential for participation in partnership programs and for growth without undue concern over the industrial sector involved. The use of selection categories then becomes more a tool to focus efforts efficiently rather than a rigorous classification system for prospective beneficiaries.

Taking into account the caveat stated above, sectors or subsectors that, in the view of the consultants merit consideration as focal points, are listed below.

### **Metal Fabrication**

In this area we emphasize three subsectors: aluminum, stainless steel and automotive. Aluminum and stainless steel represent downstream activities built on existing South African supply of the intermediate prime material. Automotive is tied to support of an existing global automotive industry.

At the component or subcontract level, aluminum and aluminum alloys are used in a variety of stamped or extruded parts. Piece parts for appliances, hardware items, construction components and vehicles are among the universe of applications. A more complex offshoot is diecasting piece parts from aluminum and zinc alloys. Upstream linkages for these activities are not only the primary metal producers, but also tool and die companies and specialized producers of alloys.

Stainless steel fabrication parallels that of aluminum in that there is a wide variety of products, including specialized medical equipment, tubes and fittings for corrosive or toxic products, (e.g., distillers for the beverage industry), kitchenware and cutlery. SMME involvement can include fabrication of less technically advanced piece parts, polishing and ancillary services to other manufacturers in areas of equipment maintenance, electrical installations, etc.

Numerous automotive components are currently supplied by small and medium-sized firms. Disadvantaged groups have gotten a toe-hold in the industry through making the wooden pallets for materials transport, repair and supply of metal bins and shelving, and, in some instances, the supply of piece parts such as brackets for boot (trunk) lids. Apart from metal fabrication, there are opportunities in wiring harness and seatbelt assemblies, and the production of subsystems for molding, door and window cranks.

A secondary automotive market that merits attention is the after-service market, which encompasses individuals or companies rebuilding transmissions, water pumps, alternators and master brake cylinders, panel beaters and possibly rebuilding engines. This market is fueled by the economic need to keep vehicles in service as long as possible and extends throughout Southern Africa.

## **Furniture**

South Africa's furniture industry has established export markets for both knocked-down furniture pieces made of laminated particle board and pine furniture. Small companies aim at the niches: for example, piece parts for the bigger companies, custom items made from old railroad ties, custom-designed furniture for offices or homes, and specialty items with African motifs. They can also address the lower-end market for upholstered goods and lower-cost, simpler metal furniture.

## **Clothing**

The clothing (apparel) industry is a classic user of subcontractors to sew garments, usually from material already cut to pattern. The industry also subcontracts very labor-intensive, specialized operations such as embroidery or beading of garments. Opportunities also exist for specialized, small-scale garment making for such items as Afrocentric clothing for export, high fashion items of wool or mohair blends, and designer items also for export, and a growing domestic market for school uniforms.

## **Giftware**

This broad category involves a variety of materials and production processes. It includes decorative art items made from wood, stone, metal or fabric for home or commercial decoration. It could include hand-and machine-loomed textile area rugs or wall hangings, and, as an extension, large-scale, organized production on a labor-intensive basis of fashion accessories (costume jewelry). Items in all these categories are made in South Africa and directed mostly at the tourist trade. Moving beyond the micro-level and into supplying overseas markets successfully requires a larger organization, still small or medium in size, but able to provide design input, quality control, some mechanization of production, economic input purchases and staff training.

## **Food Processing**

This major export industry in South Africa is controlled largely by major firms. Participation by small and medium-sized firms could include expansion of production of specialty items, such as snacks or ethnic foods, selected preserves, sauces or spices. Deregulation of the food processing and agricultural producer organizations should result in opportunities for small-scale processors of fish and marine products, nuts, fruits and vegetables. There is also the possibility of small or medium-sized firms supplying intermediate product to larger firms for final packaging and distribution. Finally, there is production and distribution of processed foods for restaurants, hotels and fast food chains matching their specific requirements.

## **Service Sectors**

In the broadly defined service sector, numerous opportunities exist for business growth and possible partnership arrangements. Examples include public transport - growing from a microbus to a small fleet of buses; developing freight hauling and delivery services; growing from one retail shop to a small chain; developing from employee to owner of a security service; providing computer and information services to schools and to disadvantaged businesses and communities; services to the tourism industry, such as guided tours, tourist site food and gift shop operations and boat tours; and development of programs for television or cable outlets.

## **7. Role in Export Development of SMMEs**

The nature of economic and industrial development in South Africa has meant that disadvantaged population groups have been unable to develop business easily, especially not industry. This is very true of blacks, nearly true of coloreds, and generally true of Asians.

Apartheid policies were strongly directed at developing the members of the white population to the detriment, if not abandonment, of other groups. The practice of job-reservation and the implementation of an educational system that exhibited different qualities for the different population groups were at the heart of this strategy. For example, universities admitted black students on a quota system, limiting the number of black graduates in the economy, and, even though South Africa experienced a shortage of certain skills (e.g., in the field of engineering), black engineering graduates found it hard to get employment. Whites therefore were groomed to manage in key positions and make decisions.

Through this process of employment and job allocation in South Africa, not only was the transfer and development of skills skewed in favor of whites, but also patterns of income and other benefits were skewed as well. White people, therefore, were by and large well prepared to enter into business, with stable, well-established contacts in both the supply and the demand side of markets. They also had good connections in the public sector and familiarity with how the regulatory environment functioned and of methods to bypass or overcome red tape.

At the same time, most of those Asian, colored and black entrepreneurs who ventured into business did so at their own peril, facing numerous constraints. Despite the system, through tremendous sacrifice and commitment, some have been able to graduate from very small businesses to medium-sized and, in some cases, even to large firms. The majority of those who have grown to medium-sized and large firms are members of the Asian community. An example is Kingsgate Clothing in Durban, a family-owned business and the second largest clothing manufacturer in South Africa, with turnover of R255 million. Asian culture generally results in its members allocating much time and effort to teaching the young business skills and encouraging them in developing a strong sense of entrepreneurship. The Asian community has developed and implemented strategies to succeed in business and other professions. As a result, Asians have acquired a few, but

significant, footholds in certain areas, for example, in KwaZulu-Natal.

Table 7.1 indicates the dominance of white-owned business in the economy. Of an estimated total of 800,000 enterprises, 48.5 percent are owned by white entrepreneurs. The presence of white-owned businesses is particularly strong in the more labor-, land- and technology-intensive sectors. These include agriculture, forestry and fishing (72.4 percent); mining and quarrying (71.1 percent); manufacturing (50.4 percent); and metal production/machinery (72.5 percent).

TABLE 7.1

Sector	Formal Sector Control				Informal Sector Control
	Total	% White	% African	% Women	
Agriculture, forestry, fishing	91,000	72.4	23.4	12.2	19,000
Mining and quarrying	5,600	71.1	24.9	10.0	370
Manufacturing, including:	78,000	50.4	34.5	34.2	92,000
clothing and leather	27,000	19.0	63.8	71.7	
metal production & machinery	17,000	72.5	16.1	6.1	
Electricity and water	3,100	57.0	34.8	7.9	2,100
Construction	93,000	38.1	47.9	3.8	62,700
Trade	245,000	40.4	44.4	35.2	280,000
Hospitality Sector	13,000	69.2	20.3	39.3	
Transport/Communication	43,000	24.2	64.6	7.5	47,000
Financial and business services	65,000	68.8	4.4	26.2	18,000
Community, social	108,000	44.4	47.6	45.6	740,000
Other	54,300	34.4	51.9	32.3	7,000
<b>Total</b>	<b>800,000</b>	<b>48.5</b>	<b>39.8</b>	<b>27.6</b>	<b>1,260,000</b>

Source: Central Statistics Services

African control is concentrated in the traditional sectors, into which market entry is possible with limited technical skills, capital or technology. These are clothing/leather (63.8 percent), transport (taxi) and personal services. The proportion of African ownership

is extremely low in the metal production/machinery, tourism and hospitality, and financial and business service sectors.

Table 7.2 illustrates the positioning of SMMEs and their presence in low technology/traditional sectors. In the retail sector, 95.5 percent of enterprises are small, micro or survivalist, and contribute at least 71 percent to employment in the sector. Together with small and medium-firms involved in the wholesale trade, these enterprises contribute about 48 percent of output attributed to the trade sector.

TABLE 7.2

Sector	Percentage of Businesses Owned by Small, Micro and Survivalist Entrepreneurs by	Percentage Contribution to Output per	Percentage Contribution to Employment per
Agriculture	94.6	43.0	57.6
Mining	93.8 (53.6% micro)	1.0	2.7
Manufacturing	95.2 (30.0% very small)	11.0	23.6
Construction	98.5 (33.0% small/micro)	32.0	56.3
Retail trade	99.5		71.0
Wholesale Trade	91.5	48.0	43.2
Catering	97.3	33.0	64.4
Transport	98.9 (52.0% micro)	12.0	62.4
Finance and business services	99.0	6.0	47.5
Community and social services	99.1	80.0	73.9

The high density of SMMEs in the retail sector (see Table 7.1, which indicates the high concentration of black-owned businesses in this sector) indicates that retrenched or unemployed people find market entry easier than in other sectors. The individual perceives more options and, without committing to investments in capital or equipment, enjoys more flexibility by purchasing goods for resale from mainly small and medium-sized manufacturers (normally in need of additional sales) of clothing, shoes and other low-technology consumer goods. This high density of operators carries obvious disadvantages, in that saturated markets generate downward pressures on profitability and sales, owing to an excess of supply (vendors) in relation to demand (customers) and the cut-throat

competition that ensues. In this environment, it is extremely difficult for individual entrepreneurs or small firms to attain growth and confidence in their business skills.

It is clear that the overwhelming majority of SMMEs under black ownership are positioned in sectors that do not offer prospects for exports. Two SMMEs owned by African entrepreneurs interviewed in KwaZulu-Natal were among the few exceptions who had slight experience in export production or trade. One, who manufactured an air purification plant exported to China, performed all the productive activities to produce the good, but had no involvement in securing the order or delivery of the product. These functions were performed by a white-owned firm. The other, involved in exporting African craft work, is fortunate to be well educated in business skills and in possession of a sound entrepreneurial attitude. However, he is experiencing difficulties in financing his export trade.

SMMEs with the potential to export are mostly white-owned, since it is this population group that by and large is sufficiently well endowed with technical and business skills, and the requisite experience in all aspects of commerce. Some medium-sized firms with fewer than 100 employees are already active in export production and trade. It is worth noting that 65 percent of SAFTO's clients are small/medium-sized firms and are predominantly white owned. The executives at Ntsika indicate that in their efforts to promote economic development, including export capability, they will not direct efforts at the micro or survivalist sector, but rather at small and medium-sized firms, the majority of which will be white-owned. The role of these small and medium-sized companies is that of subcontractors to larger firms, for example, components suppliers to automobile assemblers, or providers of services such as engineering or tool and die making; electrical installations; machine repair; construction; computer technology and transport.

Micro and survivalist entrepreneurs can be developed as sources of product for specialized trading companies, most of which in South Africa are marketers of craft products and curios. The craft markets have few prospects for large volumes of sales and encounter problems of design, quality control and supply. Small firms are directly involved in exports as mentioned above, but also in making clothing, bathroom fixtures in one case, and producing horticultural products, such as cut flowers and sun-dried tomatoes.

The universe of small and medium-sized enterprises owned by members of historically disadvantaged groups directly engaged in export is very small. This strongly suggests that looking only at

export capacity as a criterion for developmental assistance is far too narrow an approach, and that efforts must be directed at the broader range of small and medium-sized disadvantaged enterprises to generate a measurable impact on economic development.

## **8. Constraints Specific to SMMEs**

There can be no doubt that SMMEs face a wider range of constraints and problems and are less able to address these problems on their own than the major, mainline companies. This is true even in developed-market economies. The constraints, among others, relate to:

- Legal and regulatory environment confronting SMMEs
- Access to markets
- Access to finance
- Availability of business premises (at affordable rentals)
- Acquisition of skills and managerial expertise
- Access to appropriate technology
- Quality of business infrastructure (human and physical) in poverty-stricken areas
- Tax burden in many cases
- Destabilizing impact of organized labor

In the South African context, the constraints have been particularly hard on entrepreneurs in rural areas and on women.

The legacy of apartheid, with its accumulated under-development policies and policy effects, remains a major contributing force to the difficulties facing SMMEs and their inability to overcome these difficulties.

A major constraint mentioned by many of the individuals interviewed in the course of preparing this assessment was that of *attitude*. The small business sector has always existed in South Africa, but over the last two decades it has exploded in size (in terms of number of businesses). This has been largely the result of rising unemployment, which followed rationalization and downsizing by the corporate sector, and which had to contend with an increasingly powerful labor movement on the one hand and the severe, negative impacts of economic sanctions against South Africa on the other.

Naturally, when firms decide to lay off workers, they take care to retain the most productive members of their staff (both blue and white collar). Many of those who were retrenched and unable to find new jobs set out to start up a business and in doing so were forced to engage in activities to which they had never been exposed. Individuals in this position generally do not have a well-established entrepreneurial attitude, such as exerting the required effort to identify the best industry in which to operate or enter or to

elaborate a business plan with clearly defined, realistic goals and proposed procedures or action plans to realize such goals. In addition, a new set of responsibilities faces the new entrepreneur (such as seeking markets, finance, best-priced inputs/inventory, negotiating terms and, most important, the delivery of goods/services). These responsibilities impose a new but necessary constraint on the individual.

It is of broad concern that small entrepreneurs often lack financial discipline. Among them, a high marginal propensity to consume is reported, that is, a strong tendency to spend whatever income is derived from the business on consumable goods, rather than saving to generate the capital for expanding the business. The lack of savings for further reinvestment is seen as an attitude derived from a lack of business commitment.

Also linked to attitude is an apparent lack of aggressiveness and self-motivation. SMME business people, especially among the black population, are noted for being too complacent in the running of their businesses, whereas the Asians tend to expend far greater energy and thought in pursuit of increased sales and higher levels of productivity. It is not surprising therefore that Asian-owned SMMEs have demonstrated significant success in business and, in a number of instances, have outperformed their white competitors even in the face of the difficult odds against them.

Apart from attitude, few members of historically disadvantaged groups in South Africa possess the *educational background, technical or managerial skills* needed to succeed in business. This lack of educational background is the most important determinant or source of ill-conceived entrepreneurial attitudes, inappropriate behavior and lack of business sense and commitment.

Most of the black-owned emerging businesses visited during this assessment are in the micro category, with fewer than ten employees and very low revenue levels. Growing these enterprises into effective although still small enterprises implies that these entrepreneurs will have to overcome daunting obstacles. The producers we talked to, when able to produce a product (e.g., shoes), of reasonable quality acceptable to large retail stores, were unable to produce in the quantities demanded by potential customers. At the time of receiving such orders, these producers must scramble to seek financing to purchase capital equipment to hastily increase output capacity. Such applications for financing are generally not approved, and the entrepreneur loses the potential business. At the same time, these entrepreneurs lack the

networking capacity helpful, if not essential, to secure such orders. Lack of this networking capacity also means that the small business recipient of a large order is not able to make a connection to subcontract all or a part of the production to another, bigger business that may have the ability and available capacity to fulfill the order. In contrast, the art of networking appears to have been mastered by the small Asian entrepreneurs.

Many of the smaller firms lack knowledge of effective *manufacturing practices* in terms of selection of materials to be processed, production lay-out and control of quality. Familiarity with industry or international standards for specific products is minimal. This ties in closely with the lack of adequate production capacity suffered by most of the smaller entrepreneurs.

*Access to finance* is a chronic problem, since these firms rarely have an extensive track record. But the major problem is meeting the collateral requirements demanded by lending institutions (commercial banks). Many entrepreneurs, particularly in townships and rural areas, lack clear title to their land or house and thus have virtually no collateral.

Beyond the collateral requirements, banks want to be assured that entrepreneurs possess adequate competency and experience in their line of business, and that they have a definite client or customer base. These requirements have become even more stringent as the competitive pressures and resultant wave of mergers have left South Africa's banking industry concentrated in a very few major banking organizations, all of which appear to follow very similar policies. Lending to SMMEs is generally riskier than to larger, established clients, and the banks argue that their responsibility to shareholders and depositors is not to put assets at undue risk.

In the past, many SMMEs experienced financial distress due to bad or changing business and market conditions in the economy. These enterprises found it difficult to meet their financial obligations and developed poor credit ratings. Entrepreneurs once branded as credit risks or who have defaulted on loans are very unlikely ever to qualify for new bank funding.

**Constraints Faced by Historically Disadvantaged Entrepreneurs**

A proper business attitude is often missing, as are a lack of savings for further reinvestment and lack of aggressiveness and self-motivation.

Few members of historically disadvantaged groups in South Africa possess the educational background or technical or managerial skills needed to succeed in business.

Access to finance is a chronic problem since historically disadvantaged entrepreneurs rarely have an extensive track record. The major problem is meeting the collateral requirements demanded by lending institutions.

The serious lack of physical infrastructure, services and resources impacts especially the smallest businesses and those located in the rural areas, townships and squatter camps.

Market information is generally not widespread among SMMEs.

Banks themselves have not developed strategies to serve the SMME sector and generally have very little experience in providing funds to this sector. Banks view lending to this sector as business involving a high volume of low-value transactions for which the transaction and administrative costs would reduce earnings to little or nothing. The solution preferred by the large commercial banks is to assign this sector to suitably accredited NGOs with capital supplied by the banks.

According to an SMME researcher at the University of Natal (Durban), the start-up capital required for most enterprises (86 percent) was secured from the operator's own savings, as a loan or gift from relatives or friends, or from a stokvel. More than three quarters of SMME business owners have never attempted to obtain a loan from a bank, and more than half of those who have applied have been unsuccessful. A significant majority of entrepreneurs perceive bank procedures as too complicated or costs too high.

Small entrepreneurs in KwaZulu-Natal view low profitability, lack of investment capital and lack of working capital as the most important financial problems facing them. Lack of credit from suppliers and slow payment by customers, although frustrating and burdensome, are seen as much less pressing problems.

Government policies pay substantial lip service to the needs of SMMEs but in actual practice, they inhibit development through tight

money policies that keep interest rates high, discourage investment and encourage conservative lending practices.

According to the *Business Times*, "Small business occupies pride of place in the government's Growth Employment and Redistribution (GEAR) document, a fact apparently overlooked by South Africa's legislators." The article continues by saying that the Labor Relations Act and Basic Conditions of Employment Bill "are expected to further raise business costs and discourage job creation, a trend already in evidence as companies, small and large, migrate towards more capital-intensive production." And again in the same article:

"The Confederation of Employers of South Africa (Cofesa) says 'employment costs' currently account for about 30% of companies' salary bills. The introduction of payroll levies to fund the national training program will add to unemployment, currently rising at a rate of 10,000 a month, since it effectively is a tax increase with disproportionately negative impacts on SMME business. Cofesa says it has converted more than 150,000 employees at 3,000 companies into contract workers. This overcomes many of the restrictive clauses of the new labor laws."<sup>3</sup>

Another problem for SMMEs has been the highly concentrated nature of the South African economy, in which each industrial or agricultural sector has been dominated by a few large suppliers or a monopolistic control board supported by a white-owned cooperative. For example, furniture makers complain that South African timber is controlled by two companies, Sappi and Mondi, which export the best-quality lumber unadvanced in value, while making difficult and expensive the purchase of high-quality wood needed for furniture making by manufacturers. Another example is that until September 30, 1997, all exports of processed fruits and vegetables to Europe were the monopoly of a single control board that allocated sales to the three or four major corporate processors comprising the industry. Market entry for SMMEs and new firms has been extremely difficult.

Other pressing constraints are the serious *lack of physical infrastructure*, services and resources, especially among the smallest businesses and those located in the rural areas, townships and squatter camps. Business premises most commonly used are the operator's own home, a permanent structure other than a home, or a fixed stall in a market. Even

though services to these businesses are improving, there is still a huge backlog of unserved sites. Most operators use their current premises because other sites are either available or are unaffordable. This suggests that current premises are unsuitable.

*Market information* is generally not widespread among SMMEs. Small, domestically oriented firms develop their sense of market from interaction with their customers within their communities. But few have the means or motivation to explore national market possibilities outside their current local markets, let alone international markets. Market information is much less necessary for the specific small entrepreneur if there is a relationship with a buyer, whether from overseas, a trading firm or, as is usually the case, a larger company that filters the market information into product specifications for the order under consideration.

## **9. Potential Mechanisms for SMME Export Expansion**

The South African government, under the Direction of DTI has developed a Small Business Development Policy and created two new organizations to direct the effort: Ntsika Enterprise Promotion Agency (NEPA) and Khula Enterprise Finance, Ltd. In addition there is a division within the DTI, the Center for Small Business Promotion, the primary function of which appears to be providing information to small and medium-sized firms about export markets. It works together with DTI's Export Help Desk, which has just published a "Guide to Exporting for SMMEs," and the Center has developed a "Potential South African Small Business Partners Booklet." Other programs sponsored by the DTI include the Export Finance Guarantee Scheme, which is part of DTI's Export Credit Guarantee scheme, operated by the Credit Guarantee Insurance and the Export Marketing and Investment Schemes (EMAI). There is also the Competitiveness Fund, designed to help SMMEs improve their competitiveness, both locally and for export, and a Sector Partnership Fund intended to support subsector partnerships among any five or more South African manufacturers.

Table 9.1 lists examples of South African government financial support through its various programs.

**Table 9.1 South African Government Financial Support to SMMEs: Financial Year April 1996 to March 1997<sup>34</sup>**

<b>Khula Enterprise Finance, Ltd.</b>	<b>Financial Support to SMMEs</b>	<b>SMMEs and Retail Financial Intermediaries</b>
Individual credit guarantees	Furnish guarantees to SMMEs to assist them with securing a loan through a bank	136 loans to SMMEs through major banks: ABSA, African Bank, Boland Bank, Fedgen, Future Bank, FNB and Nedenterprises
Institutional credit guarantees	Furnish guarantee loans to retail financial intermediaries (RFIs) for on-lending to SMMEs	All major banks signed agreements, but details yet to be launched
Portfolio credit guarantees	Furnish guarantees to RFIs that are involved with SMME portfolio loans for targeted sectors	Agreements under negotiation with banks
Business loans	Advancement of loan capital to finance operations of RFIs	Finance to 7 RFIs. The project benefit is to finance 9,000 additional small enterprises through RFIs
Equity fund	Capital for the funding of joint ventures, expansion recapitalization or shareholder buyouts through the establishment of Provincial Equity Funds	The first Provincial Equity Fund was launched in Mpumalanga in July 1997
Seed loans	Assistance for new and existing RFIs by advancing interest-free loans. If an RFI achieves pre-agreed performance targets, the loan may be converted to a grant	5 RFIs have been granted seed loans to fund operations
Capacity building support	Assistance for systems development, staff training and board development	5 RFIs assisted

Centre for Small Business Promotion, Department of Trade and Industry, in *SMME News*, 3, 3 (July 1997).

Small Business Development Corporation Ltd.	Program	Institutions Supported and Output
Equity and loan financing	Financing from between R50,000 and R 3 million for business and property financing (property refers to business premises)	R243 million in loans issued, with a resulting 17,427 jobs facilitated and sustained

It should be noted that the Small Business Development Corporation is largely a private-sector organization, with DTI holding only 20 percent of its shares.

In reviewing this array of programs, important factors to be kept in mind include the following:

- Most recipients of these services must already be exporters or have an export order in hand.
- The universe of companies being assisted are small and medium in size, rarely micro, and many of the small and medium-sized firms that have exported are white owned.
- Most of the efforts are directed to manufacturing activities, an area in which historically disadvantaged SMMEs are especially weak.
- The agencies involved, especially Ntsika and Khula, see themselves as "wholesalers" providing support to other institutions, many of which are NGOs, which in turn are supposed to deliver services to the target enterprises.

A review of Ntsika's three-track training program again emphasizes that the principal beneficiaries will be existing, reasonably successful firms with more than 20 employees. Ntsika's own Sizeka Rensburg admits that initially most of the firms meeting the criteria for the Track Two training will be white owned. While Ntsika has identified a number of potential local service providers, South Africa currently does not have the capacity that this program will require.<sup>4</sup>

Khula Enterprise Finance, Ltd., notes a number of serious legal constraints that can affect its future performance, if not modified. It has listed four current laws as impeding its performance potential:

- Bank Act, from which Khula is seeking an exemption so that it can raise funds from the public without having to be registered as a bank
- Insurance Act, from which Khula is seeking an exemption so that it may operate under less restrictive capital requirements than now prescribed by the Financial Services Board acting on the basis of the act
- Usury Act, which puts certain restrictions on retail financial intermediaries, preventing them from charging rates sufficient to cover their cost of lending
- General high cost and complexities of litigation are prohibitively high and make uneconomical the legal steps that retail financial intermediaries (RFIs) might take to recover defaulted loans.

These issues reach above and beyond policy and operational questions involving access to funding and its costs, lending interest rates, whether Khula should be financially self-sustaining, and, if not, what level of losses are acceptable, and problems in developing its internal staff, procedures and the ability to monitor its grantees.<sup>35</sup>

Another area of government assistance, especially strong at the provincial and local levels, is procurement policy, which establishes goals for the proportion of public-sector tenders to be let to historically disadvantaged SMMEs. This provision has acted as a stimulant to a number of established suppliers to seek partnerships with such firms. This tendency is believed to be a good part of the motivation for which PQ Africa sold a 50 percent interest in a cluster of its telecommunications and information technology holdings to Real Africa, a black-owned investment group. Procurement policy at the national level is the subject of a "green paper," that encompasses a ten-point procurement program. The program envisages a series of local, small-business service centers to assist SMMEs access the procurement programs.

A November 1997 speech by Deputy Minister for Trade and Industry Phumzile Mlambo-Ngcuka in Durban made clear that the government's major thrust for small and medium-sized enterprise

Khula Enterprise Finance, Ltd., "Constraints Encountered and Challenges Identified by Khula" (October 1997).

development will be public procurement. She spoke of an Empowerment Fund to be initiated in 1998 that will act analogously to the IDC but be directed at SMMEs owned by members of historically disadvantaged groups. Seed money is to come from government funds derived from the partial privatization of Telkom, but private industry contributions will be expected so that in a period of three to four years, as much as R4 billion may be available.

Major objectives of the Empowerment Fund will be:

- Educating low income earners on economics and investment
- Assisting savings clubs, groups and partnerships through affordably priced shares to set up appropriate businesses
- Creating viable, effectively operated, black manufacturing operations

The government apparently is also prepared to "jaw bone" commercial banks to broaden their lending programs for SMMEs.

Taking into account the totality of national and provincial procurement budgets, the amount of potential procurement approaches R60 billion. Much of government procurement is for items with relatively low technical content and thus is suitable for small black businesses. To assure that affirmative action procurement is administered properly and that results can be quantified, concentrated oversight of the process will begin with Transnet, the state-owned transportation monopoly. Transnet's annual procurement budget is about R13 billion; its needs are mostly for standard items with high local content, and the organization is believed to have the capacity to work with small potential suppliers. Some thought has even been given to establishing Transnet industrial parks around the country, where small businesses can be developed to supply the organization's needs.

There is concern, however, that if the government does not manage its procurement programs in a clear and transparent manner, and, in addition, modify some of the more stringent requirements with respect to surety bonds, etc., the benefits will not reach the desired beneficiaries or attain the hoped-for volumes.

A number of private-sector organizations, including some of South Africa's major corporations, have set up SMME development programs designed to promote linkages through procurement of goods and services from SMMEs. In July 1997 a Corporate SMMEs Development Forum (CSDF) was set up to promote interaction between its member corporations and SMMEs. CSDF membership at its start-up included Anglovaal, Center for Strategic and Industrial Research (CSIR), Denel, EMSA, Eskom, Gencor, Mondi Paper, Nedcor, South African Breweries (beer division), Samancor, Transnet, FutureBank, SASOL and CocaCola. Other corporations, such as the AngloAmerican group, are also involved.

Also, numerous programs are run by chambers of commerce and industry, for example, support provided by the Johannesburg Chamber to the Soweto Chamber, the Chamber of Commerce and Industry in Cape Town, the Inyanda Chamber in Durban, national black groups such as National African Federated Chamber of Commerce and Industry (NAFCOC) and Foundation for African Business and Consumer Services (FABCOS) and industry associations such as SASSDA.

At the provincial level, institutions such as the KwaZulu-Natal Marketing Institute, KwaZulu-Natal Finance Company, the Mpumalanga Development Corporation and the High Veldt Development Corporation actively seek to develop SMMEs. Provincial governments generally also have economic development agencies, often forming a part of the Department of Economic Affairs, which work in cooperation with DTI regional offices.

A review of support institutions would not be complete without mention of the role of NGOs. The development of NGOs in South Africa became open only in this decade; previously those that operated were generally clandestine. Legalization has allowed an explosion of growth in these organizations, but most suffer from lack of skilled staff, well-developed organization and, importantly, funding. South African law does not yet permit donations to NGOs by local corporations to be counted as a business or charitable expense. Legislation modifying the tax laws to favor contributions to NGOs is in process. Meanwhile, most are dependent on donor aid.

NGOs visited by the consultants and that focused on SMME development include the Black Management Forum; the Blue Project, Sam Montsi & Associates (which administers AngloVaal's program and participates in the Blue Project); BEES consulting group, Independent Business Enrichment Center (IBEC), the Small

Business Development Corporation (listed in Table 9.1); the Triple Trust Organization; Eccles Associates (EASY Project); and the Business Opportunities Center.

In terms of their impact, many small business people have complained that the government's small business programs have been largely ineffective. Numerous small businesses are unfamiliar with the broad range of programs available, apparently reflecting limited dissemination of relevant information to date. Secondly, numerous NGOs work either independently or in tandem with the government on financial support programs. The result is that the financial support strategy is disjointed; there is no centrally coordinated strategy. A senior official in the Ministry of Trade and Industry noted that several of the NGOs working with the government on its SMME financial programs have not been helpful.<sup>36</sup> Many SMMEs cannot manage the workload, and they lack sufficient financial resources to attract top-notch managerial and technical talent. In addition, he points out that the government has not established appropriate systems to measure the impact of its financial support programs. The result is that very little quantitative data has been compiled to date on grassroots SMME activities.

A senior staff member of Khula noted that one of their most persistent problems is an inability to draw the interest of commercial banks in their activities.<sup>37</sup> Many commercial banks are largely ignorant of the SMME sector in general and are unaware of the credit facilities developed by Khula to provide on-lending to small businesses.

It should be accepted that the first order of business in the field of SMME development is just that, development in their capacity to do business and to increase sales and employment. Within this context, there has been some progress. Of note is that USAID's funded Blue Project, since its real program startup in April 1996, has reported that it has exceeded its three year program objectives as of September 1997, having achieved 92 linkages with a business value of R33.5 million.

*International Market Insight, 4.*  
*International Market Insight, 4.*

The Blue Project is built on connecting existing small and medium-sized enterprises with mainstream companies. This is not an easy process, owing to companies for which affirmative action procurement is given only lip service and another, even larger group, which can be classified as passive, that is, those that will buy from SMMEs only if the specifications, price, volume and delivery are right, and show no willingness to work with SMMEs beyond the simple purchase mechanism. Nevertheless, the Blue Project reports surpassing its assigned targets with a year yet to go.

Given the nature of the South African economy, truly small firms are not likely to be stand alone exporters. Several institutions - for example, Africa Trading, which is combining with Just Exchange (and supported by the Triple Trust Organization) - have been successful in securing handicraft and giftware items from small and micro enterprises. Even here producer groups with five or more people involved are preferred. In the judgment of management, however, handicrafts in and of themselves are too narrow a field to sustain a significant development push. Just Exchange has entered into development of nontraditional agricultural products such as mustard, honey and vinegar, as a way to expand its reach. There are serious social problems in expanding black access to land needed for this type of production, not only because of the land tenure issue, but also because white farmers who control the land often are not yet prepared to enter into cooperative measures with blacks that might include leasing land not currently utilized.

**First Order of Business for SMME  
Development:**

Development In Their Capacity To Do Business

Development In Their Capacity To Increase Sales  
And Employment.

Finally, the exception that proves the rule that micro-entrepreneurs do not export is that numerous individuals are engaged in cross-border informal trade between neighboring countries and South Africa.

This array of institutions and efforts should be reviewed in terms of the experience of other countries. The record outlined in Section 2

indicates that government-sponsored and -financed export development programs have not been overly successful. Those that have worked were aided greatly by sound economic and social environments: macroeconomic policy that permitted exporters access to inputs at world prices, open foreign exchange regimes, reasonably well-developed and reasonably priced labor inputs, and an entrepreneurial culture. This is not the situation in South Africa, even for established, mainline companies.

That government efforts can be useful, at least initially in supplying information and trade assistance, is probably true. Participating in trade missions and at trade exhibitions are proven techniques, but they have to be conducted over a period of time. Establishing credibility with prospective buyers at recurrent trade shows, such as the Hanover Fair, may require the exhibitor to show up for as many as three years running to be accepted as a "serious" supplier. One-shot, unfocused efforts are not generally cost effective. On balance, there appear to be far better prospects for linkages between domestic South African firms and SMMEs than with foreign firms, but that does not mean that foreign linkages should not be promoted, since they offer the potential for innovative, or at least new to South Africa, insights into markets, production processes and management.

## **10. South African Export-Expansion Efforts**

As a matter of current policy, the government of South Africa is committed to developing an open economy and looking to exports as a principal engine for economic growth. Its commitments to the GATT/WTO will mean a substantial reduction in import duties, leading to a more open and competitive economy, but it has a few years to make the full transition. Reductions to date in import tariffs have brought about significant changes in heavily protected industries such as footwear, textiles and clothing, and automotive products.

DTI has the lead role within government for export development. Its offices act as the supporting government service for South Africa's overseas foreign trade representation, much as the US Department of Commerce used to support the State Department's foreign service officers assigned to commercial matters.

DTI sponsored the creation of a specialized export promotion agency, the South African Foreign Trade Organization (SAFTO) in 1963. It has now been converted to a Section 21 company, a not-for-profit firm, organized as a corporation with a mandate to expand trade, but to be financially self-sufficient. As a result it has had to drop its SMME programs, which were not deemed to be viable on a pay-for-service basis, so that its resources, including its trade databank and connections overseas are not generally available to SMMEs.

SAFTO has a membership service that caters to a broad spectrum of firms engaged in world trade - not only manufacturers, but agents, financial intermediaries, etc. It offers members of its World Trade Club access to the "Exporters' Manual" and updates that provide factual information on all the critical dimensions of exporting. There is also a monthly magazine, and members have toll-free telephone access to a Members' Assistance Center. On a fee basis, SAFTO offers a wide variety of market research and export strategy development through its international trade consulting services. These services are tailored to the specific requirements of the client firm. SAFTO's international trade training and education programs consist both of short courses (one to three days) in selected topics (e.g., understanding letters of credit and exporting for the small manufacturer) and more extensive courses in its Diploma in Export Management program.

Former staff members from the training and education division established in 1996 a private training program, the International Trade Institute of South Africa (Itrisa). Itrisa offers a selection of short training courses for exporters, importers, and clearing and forwarding agents. It offers long-distance training in all aspects of international trade to students not only in South Africa, but elsewhere in Southern Africa. It is accredited by the International Association of Trade Training Organizations.

Major corporations, such as Gencor, Sappi or AngloAmerican, are so well established on a global basis as not to require SAFTO's services. The market for SAFTO and, by extension, such groups as Itrisa, appears to be small, medium-sized, and those large South African companies newly interested in increasing exports.

South Africa's specialized, government-established investment facility is Investment South Africa (ISA), which was established in April 1996 by DTI to fulfill the functions of investment promotion and facilitation. ISA offers investor support services and access for investors to provincial investment promotion agencies. ISA services to investors include information on doing business in South Africa, information on incentives for investors and a "road map" to specific investment opportunities. It is expected to play a central role in developing targeted investment promotion strategies, working with the provincial institutions and engaging in external promotion activities. Its staff will work with prospective foreign investors to assure access to key people in both public and private sectors, and to help smooth the way for such investors. ISA is quite new and still in the initial phases of its program, so that actual results are not yet quantifiable.

It should be recognized that ISA is promoting investment in a country that is not very competitive with many other countries in the array of services and economic prospects it offers. A very recent decision to build a R1.4 billion fertilizer plant in Jordan, rather than in South Africa, may illustrate the disadvantage of not even considering the development of export processing zones. Previous sections in this assessment describe more fully the array of constraints affecting economic growth and export development: These obviously affect the decisions of prospective foreign investors as well. The main point to be made is that promotional agencies cannot sell a weak product. South Africa cannot anticipate that foreign investors will automatically be attracted by the country's desire for foreign investment; there

must be strong business reasons to justify investment, a principal one being the ability to make money.

**South Africa's Export Development and  
Investment Promotion Arms**

Department of Trade and Industry (DTI)  
South African Foreign Trade Organization (SAFTO)  
International Trade Institute of South Africa (Itrisa)  
Investment South Africa (ISA)  
Industrial Development Corporation (IDC)  
Spatial Development Initiatives (SDIs)  
Provincial investment promotion organizations  
(Wesgro, KFC, CIMEC, etc.)  
Chambers of commerce and industry  
Export incentive schemes

The heavy role of the state in the South African economy is reflected by a parastatal, IDC, which also works with prospective foreign investors in developing projects jointly financed by the IDC and the foreign enterprise. A recent example is a massive investment to build a steel mill, now projected to cost R7 billion, which is a joint venture between the IDC and a Swiss firm.

IDC has long been involved in minerals-based megaprojects, the latest examples of which are its current interest in joining with Billiton, the new, nonferrous metals spinoff of Gencor, to develop a US\$1.3 billion aluminum smelter in Mozambique, and a R2.7 billion zinc smelter in the Eastern Cape Province. It is looking at a US\$1.6 billion direct reduction iron and steel plant near Maputo. Also, a glycol plant using sugar as its raw material in KwaZulu-Natal and an Eastern Cape pine plantation are parts of IDC's agribusiness sectors. IDC has run tea plantations since the 1950s, as well as the prospective pistachio project in the Northern Cape.

Its annual revenues approach R2.5 billion, and it is developing an investment plan for the next five years of R40 billion.<sup>38</sup> In the five years ending in June 1997, IDC funding totaled R21.7 billion that was leveraged with partnership investments to reach a total of R44

Sven Lunsche, "IDC Changes Tack on R40bn Five-Year Plan," *Business Times*, 30 November 1997, 23.

billion. Annual funding runs in the range of R3.0 to R3.5 billion. The IDC policy is changing somewhat towards supporting small and medium-sized enterprises, with funding for this sector in excess of R500 million. It claims to have backed 384 companies with financial support, including export financing.

The question of whether investment decisions might better be made by the private sector or by an unbundled, privatized IDC does not appear to be at issue. Khaya Ngqula, the IDC chief executive, has been quoted in the press as saying, "We are far too busy to consider a change of status."<sup>39</sup>

As an underpinning to export development and corresponding FDI needs, the IDC has developed two strategic approaches. These are the Spatial Development Initiatives (SDIs) and its industrial cluster studies.

SDIs are predicated on the concentration of investment into specific geographical areas possessing inherent but underutilized potential. The government has designated eight areas for development as SDIs, five of which are along the coast, two in the northern interior and one, the Maputo Development Corridor, running from the industrial area in central Mpumalanga to Maputo, Mozambique. The concept is to harness public-sector investment in infrastructure and social capital with private-sector investment in new economic enterprises. The objectives are economic growth, sustainable job creation, maximum private-sector investment and a change of ownership patterns in the economy. The choice of coastal locations is expected to prove attractive to export-oriented industrial investment, since easy access to port facilities will ameliorate the problem of South Africa's relatively high internal transport costs. The SDIs also generally represent areas that are seen to have fallen behind economically.

The two SDI developments furthest along in the process are the Maputo Corridor and the Fish River SDI, the latter of which is centered around the ports of East London and Port Elizabeth in the southern Eastern Cape province. There is strong interest in the former central and eastern Transvaal to develop the Maputo Corridor, since it represents the shortest route to seaports for the heavy mineral and primary metal producers in the region. This helps explain the interest in the aluminum refinery for Maputo. Considerable dredging and reconstruction are needed to make

Lunsche, "IDC Changes Tack," 23.

Maputo a viable port, but South Africans were active in Mozambique when the port was known as Lorenzo Marques, and there seems to be substantial interest in reestablishing ties since both countries have undergone radical political change in the past few years.

With respect to the Fish River SDI, the IDC, working with the Development Bank of Southern Africa (DBSA) and local development groups sponsored an investors conference in East London in November 1997. A major interest in both Port Elizabeth and East London is the restructuring and expansion of the automotive industry. A substantial number of small and medium-sized component suppliers to the industry are located in and around these two ports, and there is strong concern over whether employment levels in the industry can be maintained in the face of adjustments brought about by the opening of the economy. There is a general sense that the Eastern Cape, with its large population of disadvantaged groups (including the former Ciskei and Transkei homelands), has been left behind by the continued concentration of industry in Gauteng and that this trend must be reversed.

ISA has been charged with promoting foreign investment in the SDIs in the form of "anchor projects." It is also to assist in developing public-private partnerships in infrastructure, both municipal and in industrial materials handling facilities (e.g., ports and terminal facilities). The consultants are unaware of any significant foreign investment within the SDIs in terms of new manufacturing or processing facilities to date, or of any substantial government commitment to major infrastructure projects such as a deep water industrial seaport proposed for a site near Port Elizabeth. As of this date, the SDIs appear more theoretical than real.

The identification of industrial clusters by DTI relates to the present finding that export development is no longer just a matter of cheap labor and stand alone firms, but rather requires deeper industrial development in which backward and forward linkages, together with company specializations, can be combined into export manufacturing centers. These clusters would tie in available primary resources, such as aluminum or stainless steel, with intermediate manufacturers producing sheet, slabs or tubing for further fabrication by firms dedicated to a limited product range, be it cutlery, kitchenware or other, industrial products. These firms would be supported by additional firms providing specialized products or services, including tool and die making, electrical installations, equipment maintenance and repair, packaging, telecommunication and computer services, specialized training, manufacturing technical assistance, and transport or shipping.

Similar clusters have been developed elsewhere, especially in Japan and the Asian Tigers where major export manufacturers over time became supported by an array of sub-contractors and service providers. The concept makes sense as a mechanism to develop effective export manufacturers as well as offering opportunities for development of small and medium-sized firms.

The national government is not the only element engaged in export development and investment promotion. At the provincial level, several proactive organizations are concerned with development in their respective provinces. Wesgro in the Western Cape is especially noted, but KwaZulu-Natal Marketing Institute and the KwaZulu-Natal Finance Corporation (KFC), as well as divisions of the various provincial Departments of Economic Development, are also involved. In the Eastern Cape, a new investment promotion agency, the Center for Investment and Marketing in the Eastern Cape (CIMEC), in East London, is starting up what it hopes will be an effective investment promotion program for its area.

Trade promotion activities are also a part of the agenda for most of the country's chambers of commerce and industry. In South Africa, membership in such a chamber is voluntary, so that levels of interest by the membership and services to them are high. Chambers that do not give value to their memberships risk failing to survive. The Johannesburg Chamber of Commerce and Industry (JCCI) is probably the most heavily involved of the South African chambers. It maintains a database of its membership and is quick to respond to inquiries, usually product specific, from abroad, including queries from South African commercial officers overseas. The chamber in Cape Town probably ranks second in this regard.

One of the major roles played by binational chambers of commerce is to promote two-way trade between the respective countries. The South African-American Chamber of Commerce sponsors trade missions to other countries in Southern Africa as well as works to promote the interests of its members within South Africa. The British equivalent is the South Africa Britain Trade Association (SABRITA), but the Germans, Dutch, Israelis and many other countries have binational chambers generally focused on trade matters. There is even a chamber representing the EU.

Starting with its acceptance by the GATT/WTO and essentially since about 1993, South Africa has found itself in a position actively to pursue bilateral and multilateral trade negotiations. South Africa is the dominant member of the SACU, which includes Lesotho, Swaziland, Botswana and Namibia. Trade between the members is

free of duty and at present is aggregated into a single set of trade statistics by South Africa's Customs and Excise Service. A larger African group to which South Africa now belongs is the Southern African Development Community (SADC). South African trade and investment has expanded rapidly with the 12-country SADC group, with Zimbabwe and Mozambique now among South Africa's top 20 trade partners. Very heavy trade imbalances in favor of South Africa limit further development in this area, at least in the short term. South Africa would like to see the SADC evolve into a free-trade area over a period of eight years and appears willing to consider seriously major reductions in its applicable import tariffs to achieve this goal.

**South Africa's International Affiliations And Memberships**

GATT/WTO  
South African Customs Union  
Southern African Development Community  
European Community - Free Trade Access  
(Negotiations Pending)  
Lome Convention - Associate Membership  
(Negotiations Pending)

Negotiations for free-trade access for an agreed list of products between the EU and South Africa have been underway for three years without yet coming to agreement. South Africa's wine, fruit juices and processed foods appear to be sticking points with a number of EU members. South Africa is also engaged in negotiating a type of associate membership in the Lome Convention, a trade preference group including the European Union and mostly former colonies of Britain and France.

South Africa withdrew diplomatic recognition of Taiwan in favor of that for the People's Republic of China. Several South African firms are now active investors in China, and bilateral trade volumes are growing. Announcements of new trade relations with India and Saudi Arabia have been covered by the press recently, but India has import restrictions against consumer goods even more severe than those of South Africa, and bilateral trade is modest. The interest in Saudi Arabia is said to revolve about petroleum. South Africa's principal oil supplier at present is Iran, from which it bought more than R5 billion worth in 1996.

Despite the best of intentions and some progress, South Africa's move away from a strictly inward-oriented economy to one seeking export-led growth has a short history and confronts many obstacles. Export growth figures must be judged against the loss in value of the rand over this period. Furthermore, and very importantly, the role of government subsidies has contributed to the export drive. From 1993 until it ended in 1997, the General Export Incentive Scheme (GEIS) paid out over R5 billion. Depending on factors such as local value addition and class of product, GEIS paid exporters as much as 8.4 percent of the value of their exports as a tax-free subsidy. Given the marginal corporate tax rate for many of 50 percent, for many exporters this was the equivalent of a 16.4 percent effective return. Currently textiles, clothing and automotive products benefit from export subsidy schemes scheduled to expire by the year 2002. All of these schemes are illegal under GATT, and the question arises as to true global competitiveness of these subsidized industries after the programs expire. The Export Marketing Assistance scheme that replaced GEIS offers some support, but is not nearly as generous, or as costly to the government, as was GEIS.

South Africa's export development and investment promotion arms are for the most part new to the game and limited in numbers of experienced staff and financial resources. Promotion seems quite broad, with few finely targeted activities taking place. Investment promotion agencies traditionally try to "sell" the country, manipulating three variables: the product (country), the price, and promotion or activities to disseminate information about the country. Their functions are to improve the country's image among investors, generate investment directly and provide services to prospective and current investors. The first phase, improving the image of South Africa, seems well on the way, primarily because of the democratic elections of 1994 and the assumption of power of the ANC, thereby roundly rejecting the tenets of apartheid. The record of ISA and DTI in generating direct investment and providing services cannot be judged fairly as yet, owing to the small amount of time they have been involved.

Significant investment moves are taking place; South African firms are spending large amounts in offshore acquisitions, including facilities in Europe, the US and Africa. European, US and Asian firms are investing in South Africa. The process seems driven purely by the private sector's perception of its best business interests, aided by the government's relaxation of foreign exchange controls and its openness in general to foreign investment.

Much of the investment seems far more related to redeploying assets than to expanding production capacity. Future South African export growth is not necessarily assured, but will require further policy reform and the overcoming of existing constraints.

Despite increased interest and optimism with respect to African development, Africa does not loom large in the world economy, and there are no inherent reasons for large flows of foreign capital to South Africa. Investment flows into Africa have usually been connected to mineral resource development, especially oil, with minor amounts directed to manufacturing.

## **11. Analysis of South African Databases and Information Access**

### **Introduction and Background**

This chapter discusses the prevalence and usefulness of certain databases currently available in South Africa. Many different organizations are mentioned, officials of nearly all of which were interviewed during the course of the consultants' visit to South Africa. One of the emphases for information gathering during the visit was to extrapolate information concerning the organizations' use of databases, and whether they possessed a database.

The importance of databases in the global economy is clearly illustrated by the amount of time, effort and money expended by businesses and organizations all over the world to build, improve or restructure their information technology in general and databases in particular. The South African press devotes substantial space to detailing developments in this field and the mergers, acquisitions and expansions taking place in the industry in South Africa.

A database can be used by SMMEs interested in expanding their business in support of efforts to find export leads, sources of management information, availability of training seminars and technical assistance, and a variety of other tools that are available that may assist the firms.

The series of visits conducted by the consultants made clear that there are many databases in South Africa at the moment, but most are subscription-based services. In general, to an SMME this would mean an extra business expense that many are not prepared to pay.

Of the existing databases in South Africa, the ones that could directly serve the interests of small business owners, particularly exporters, are few and far between. In general, those that are accessible to the public are underutilized and unknown to most of those who could best gain from using them.

During the recent history of South Africa, there were times when many companies and individuals were engaged in evading foreign exchange controls, and the whole country was involved in circumventing the international boycott as well as engaging in virtual

warfare against anti-apartheid activists and neighboring revolutionary regimes. These circumstances led to a culture of secrecy, if not paranoia, and information continues to be rather closely held. The consultants also heard comments to the effect that South African businesses in general are loath to pay for information. All this results in a society where open access to information is only just beginning.

Many organizations, government agencies, and corporations in South Africa have databases. A number of these databases are classified (see Table 11.1) as internal only, for pay or public access.

**Table 11.1 Databases in South Africa**

<b>Organization</b>	<b>Characteristics of Database</b>
Central Statistical Service	General information, not readily accessible to public
Small Business Development Ntsika (NEPA)	Internal database of its clients, organized by Standard Encompasses 300,000 SMMEs.
South African Foreign Trade	Covers foreign trade matters, accessible by clients only
National Business Initiative	Internal database of member companies
Credit Guarantee Agency	Internal use only
Khula Enterprise Finance	Internal use only database, has comprehensive internet
Centre for Strategic and Development Bank of	Quite extensive, supports CSIR research
South Africa Britain Trade	Has Resource Centre for use by public, database at Centre
Small Business Opportunity	Membership database, database of top companies in South Encompasses SMMEs they deal with
State Library in Pretoria	Includes listings of nearly every published item in South Africa
Investment South Africa (ISA)	Comprehensive database more focused towards investment
Foundation for African	Database is planned, education center also planned
World Trade Centre	Access to United Nations Development Programme/ITC-run

### **Internal-Use Databases**

The Central Statistical Service (CSS) in Pretoria is widely known as the keeper of all statistics in South Africa, but they have little or no information directly relevant to SMME development or export. It was mentioned during a meeting at CSS that the Department of Customs and Excise has complete raw export statistics.

The Small Business Development Corporation (SBDC) has an internal database of its approximately 8,000 clients. The clients are organized by SIC code, but the database is completely confidential and is used for matchmaking by the SBDC.

NEPA has a database encompassing approximately 300,000 small enterprises. It is not entirely clear by what parameters the database can be searched. It is used to search for SMMEs to work with each other and larger partners.

SAFTO, the South African Foreign Trade Organization, offers access to its database on foreign trade matters to its paid members and on a for-fee basis to companies looking for assistance from its trade consulting service. This database also serves SAFTO's internal requirements in its efforts to disseminate trade information in a timely fashion.

The National Business Initiative maintains an internal database of its member companies, which number approximately 150. They do not have a website at present or any public access of their database.

The Credit Guarantee Agency hosts an internal database. It maintains records of transactions involving both foreign buyers and the South African suppliers, and is utilized to set up matches between prospective exporters and overseas buyers as feasible.

Khula Enterprise Finance has an internal-use-only database that is its project management system. They also have a comprehensive Internet website. As an organization Khula is still in the formative stage, but in 1998 it will begin posting its annual impact surveys on its website for public access in searchable database format. At this time, there just simply is not enough data available.

CSIR in Pretoria also maintains a database. The database is believed to be quite extensive and supports CSIR statistical and research publications. Access to CSIR printed data is fee based.

### **Publicly Accessible Databases**

DBSA has an excellent Resource Centre, which can be used for free by the public during business hours. The library mostly has items of "socio-economic infrastructural information." It is located in Midrand but is fairly convenient to Johannesburg. Listed are articles, periodicals and books relevant to SMMEs and small exporters. Additionally a database at the Centre catalogues all items in the library. Currently there is no Internet access to the database but such access is planned.

SABRITA maintains a membership database, a database of top companies in South Africa, a British companies database and a markets database. They are the only business chamber in South Africa that gives out market information free of charge. This could prove very helpful to small and micro companies looking to export to potential markets in the UK.

The Small Business Opportunity Centre has a database of approximately 500 SMMEs that they deal with. Only some 30 percent of these companies are linkable with larger partners. Currently it is an internal database, but the Centre plans to cooperate with DTI to initiate public access through the Internet.

The State Library in Pretoria has in its collection nearly everything published in South Africa and is thus an excellent resource for SMME development and small exporters in general. All topics relevant to business are believed to be covered. In-house databases are organized by subject.

ISA and the Northern Province Investment Initiative (NPII) are two organizations that deal with investment promotion that will soon begin using a comprehensive database designed by the WEFA Group (formerly Wharton Economic Forecasting Associates). Although those organizations are not SMME or export oriented, they provide good examples of the WEFA database in action.

The WEFA Group designs databases to track projects, and fields can be tailored to the goals and needs of various client organizations. The ISA database will be accessible by the public, the nine provinces, government and foreign embassies. This database will be an excellent example for other organizations to follow if contemplating a publicly accessible database.

FABCOS (Foundation for African Business and Consumer Services) does not yet have its database active; however, that is planned to happen shortly. The foundation is also planning to open an education center at FABCOS offices within the next several months.

Port Elizabeth Transitional Local Council is compiling a database of emerging business people, especially from disadvantaged and marginalized sectors. The aim of this database is to give suppliers of goods and contracting and consulting businesses the opportunity to enter into economic activities through the city council's operations.

Although this discussion of publicly accessible databases is extensive, it can be somewhat misleading. For the most part in South Africa, the majority of pertinent and up-to-date information is almost exclusively found in for-pay database services. The exceptions appear to be limited to DBSA and ISA, neither of which is active in SMME activities.

### **Subscription and For-Pay Services**

According to ISA, an organization called the International Resource Center maintains a rather extensive trade-related database. This service is provided on a payment basis, however. The owner of this Sandton company is Collin Wright.

Deloitte & Touche has an international trade-oriented database, run by Professor Johan Hough of the University of South Africa (UNISA). He assists in running the database on a part-time basis.

The World Trade Centre in Kempton Park apparently has online access to the database managed by UNDP/ITC, the Trade Points program that catalogue business opportunities presumably world wide both for buyers and sellers. This Internet service is subscription based. The World Trade Display Center, a sister organization that operates the exhibit services, is also actively engaged in international trading and publishes periodically a guide to business opportunities. The two organizations combined are an available resource for developing small business owners and potential exporters.

### **Internet-Based Information**

In addition to databases that exist at organizations, companies, libraries and other institutions, online databases are available on the Internet. Some of these online resources are subscription based and some are free. The difference, when it comes to the Internet, is that it does not matter where the database is physically hosted or based; one can access it from anywhere in the world. In this way, SMME exporters in South Africa with computer access have as much exposure to company databases and market information as companies in the US.

A new database accessible through the Internet without fee has just been launched by EDS, the South African subsidiary of the American parent corporation. It is intended for small businesses

and is designed to assist their search for suppliers and prospective partners. The database is said to include information on 3,500 companies.<sup>40</sup>

In addition to databases, there are also search engines. There are many search engines on the Internet, but only a handful of very large ones. Infoseek, AltaVista, HotBot and Yahoo are the most commonly used search engines. They are excellent for searching globally around the Web, without really a primary focus on any one geographical area, although the US dominates the Internet, owing simply to its volume of users.

There are also South Africa-specific search engines, of which Ananzi appears to be the largest. Microsoft Explorer 4.0 Web Browser's default page lists three South African search engines, Ananzi, Who's Who and Aardvark. Zebra is a fourth South African search engine. Through search engines, such as Ananzi, one has access to many websites dealing with trade, economics, export/import and company listings. Technologically, South Africa is on par with the US, UK and other advanced nations, and this technology can be put to work for SMME exporters.

SA Online was among the first companies to use the Internet to promote business development in South Africa. SA Online provides many Internet-based services that are standard in the US. These services include website design publishing, database development, internet consulting and electronic commerce buying and selling via the Web. SA Online is only one of a number of companies emerging in South Africa offering computer and Internet-related services, the largest of which appears to be The Internet Solution.

In the field of electronic commerce, the most active appears to be ECNet, a subsidiary of PQ Africa, probably South Africa's largest company in this field, formed earlier in the year from a merger of Persetel and Q Data. Others include BCSWeb and M-Web, the latter offering interactive Internet access. Numerous small companies (e.g., Networld) offer access to the Internet through use of standard software packages such as Netscape and Eudora. In general, this is a rapidly growing field in South Africa. Of interest is that in the proposed acquisition of 50 percent of PQ Africa by a consortium led by a black-owned group, Real Africa Holdings, ECNet and the SA Certification Agency (which is involved in secure electronic transactions), are being held out of the deal, indicating

*The Star Business Report, 2 December 1997, 6.*

that PQ Holdings, the parent group, sees strong growth potential in this area.

Electronic services in general are available to SMMEs. In fact many of the smaller players in the industry are SMMEs in terms of employment and, often, by levels of revenue. Few are owned by historically disadvantaged groups, however. SMMEs involved in manufacturing or commerce can assist themselves by accessing these services, but they need to be aware of the advantages offered by such access and to have the financial resources to buy the services.

## **General Information**

The JCCI and DTI are two organizations that are frequently contacted by SMME's for information. According to the Black Management Forum, its members go to various business chambers for information and database assistance.

The JCCI, in tandem with its counterpart in Cape Town, maintain fairly detailed databases of members. Information from this databank is made available to South African missions abroad in response to inquiries. Normally, a foreign commercial officer would forward requests to the parent organization, DTI, but response time may run weeks. The JCCI claims it responds within a day or two. The information requested tends to be product specific, that is, a foreign buyer looking for a producer of a specific product, or for sales representation in South Africa for designated products.

DTI is expected by some to come up with a comprehensive database in the near future. There is a great deal of relevant information to SMME exporters currently available on the Internet, including Michigan State University's website containing information on how to export and information covering a number of countries.

## **Publications**

*Enterprise Magazine* is a good source of information for SMMEs, according to a representative of NAFCOC. In addition, NAFCOC uses the CyberScreen database to track all of its members and related information. The same program is used by many chambers of commerce in the United States.

*McGregor's Who Owns Who* is an excellent resource for business people wanting to know more about the state of companies and corporate structures in South Africa. McGregor's also has a database that can be accessed on a pay-as-you-go or subscription basis.

There are publications other than those mentioned here, and many more new ones are constantly being launched. Once again, however, publications cost money and could represent a significant expense to a struggling SMME.

### **Database Recommendations**

A database, accessible both at a central location and through the Internet, would be an extremely valuable resource for developing SMMEs and potential SMME exporters. This database would include information on training seminars, publication and resource listings, as well as contact information for specialists and consultants.

Increased access to computers with Internet-access provided to SMME exporters and potential exporters will provide a more level playing field with regard to information.

Another important resource would be providing access for developing SMMEs to trade and export-oriented magazines and publications, whether in print or electronic format. A searchable database of articles of interest would be a valuable resource.

In that regard, American companies such as the Information Access Company, DIALOG, Lexis Nexus and Dun & Bradstreet could provide a valuable business service, comparable to services offered in the US and elsewhere. Another option would be to provide emerging South African enterprises with access to existing databases.

## **12. Recommendations**

### **Introduction**

The consultants were asked to develop broad-based recommendations for potential USAID interventions designed to promote the economic development of small, medium and microenterprises representing historically disadvantaged South African groups. The emphasis was to tie SMME development to South Africa's expected export-led growth.

In the course of the assessment it became apparent that tying SMME development directly to export markets would confine potential interventions to a very small group of enterprises. Alternatively, it is believed that appropriate USAID interventions should be directed at promoting the general economic development of small and medium-sized enterprises owned by members of historically disadvantaged groups. The rationale for this approach follows.

### **Export Potential**

Very few black SMMEs in South Africa have entered the export market. Although the legacy of apartheid in stifling black business is a contributing factor, the structure of the South African economy itself is the primary issue. Decades of import substitution had made the South African economy one of the world's most inwardly oriented. Only in the early 1990s, as apartheid laws were being scrapped and the country was heading toward democratic elections, did the economic liberalization process begin. This process is far from complete. South Africa has shown little movement away from its established economic model of capital intensive investment, heavy state influence in the economy, oligopolistic industrial structure and continued high levels of import protection. Within this environment, it is unrealistic to expect small and medium-sized firms, traditionally associated with labor intensive processes, to be engaged extensively in direct exports.

Most of the SMMEs involved in export activity have been white owned and engaged in relatively technically advanced manufacture. Manufacturing is precisely the area in which historically disadvantaged entrepreneurs are the weakest. It should not be surprising then that during the consultants' interviews in South Africa, many government officials and business people felt that two

separate strategies were warranted in addressing SMME development.

- The first strategy involved skills development and management training.
- The second strategy involved increasing procurement opportunities for small businesses.

Addressing “export-readiness” was considered secondary. Indeed, it was fairly clear during the consultants’ visit that many SMMEs in South Africa needed to master the fundamentals. The skills and experience gap between white-owned SMMEs and black-owned SMMEs is unfortunately extremely wide.

### **Effective Size**

A major objective for the South African government as embodied in its GEAR program is job generation. Assistance to microenterprises or survivalist entrepreneurs can increase family incomes but rarely results in significant new job creation. Increasing employment can better be accomplished by targeting firms already established even if only with a very few employees and helping them to expand. For this reason it is recommended that USAID join other agencies such as Ntsika and focus on small and medium-sized firms in its developmental programs.

### **Selection of Potential Interventions**

Potential interventions to promote economic development of small and medium-sized enterprises include efforts to:

- Improve access to financial resources
- Effect policy reform
- Provide technical assistance
- Promote linkages and partnerships with more developed firms

## **Finance**

Access to finance is listed as a major constraint for SMME development and a number of programs have been started or are expected to be put in place in the near term to address this issue. One of the interventions is a major program planned by the European Union that will be administered by one of South Africa's largest commercial banking groups.

The problems are complex, relating to questions of risk as viewed in terms of appropriate collateral, interest rates, cost of administration and managerial capacity of both lenders and borrowers. The problems are made worse by the current economic environment of high interest rates, inflation and uncertainties of the market place. USAID is involved in this field with its EASY program and further commitment in this area of SMME assistance would, in the consultants' opinion, not be the best advised use of USAID's financial resources.

## **Policy**

There are several policy issues at the macro level reform of which would enhance South Africa's export potential. These would include more flexible labor policies, a far better approach than listed in the Constitution for property rights, modifications to such legislation as the Bank Act, development of an effective competition policy, more rapid privatization of state assets and reform of the tax structure among other things. To the extent possible the Mission should support macroeconomic policy reform, but this area falls outside the scope of interventions targeted to small and medium-sized enterprises.

With respect to SMMEs, there are numerous regulatory reforms that could contribute to lessening burdens on small and medium-sized enterprises and thus promote their economic development. USAID may wish to encourage these regulatory reforms through its interaction with concerned departments of the South African government and its participation in national and regional fora involved with SMME economic development.

A major area of useful regulatory reform is the administration of taxes, including the Value Added Tax, the Regional Services Council (RSC) levies and the collection of individual and corporate income taxes. Regulatory reforms should aim generally at

increasing the monetary limits at which full regulatory compliance is required. For example, in the case of the RSC levies, firms with annual turnover of R250,000 could be required to file only annually or, perhaps, be exempted from the levy. Similarly, the current floor for the VAT of R150,000 annual turnover could be adjusted upward to account for the effects of inflation since 1993. Basically, the administration of taxes needs to be carried out with due consideration of the costs it presently imposes on those companies least able to meet them.

More imaginative tax policy reform might include tax incentives for large firms which invest in small and medium-sized enterprises or which develop linkages and skills transfers with such firms. More importantly, the tax code needs to be oriented away from its current bias against the small entrepreneur, perhaps by equalizing the corporate and personal income tax rates so that the individual proprietor is not at a tax disadvantage compared to a corporation.

Regulatory modifications in procurement could also prove useful, such as exempting firms bidding on contracts of less than R100,000 in value from have to obtain performance bonds or surety contracts. Procurements might also be broken down to a series of smaller amounts to allow small and medium-sized firms to bid.

### **Technical Assistance, Linkages and Partnerships**

The consultants believe that USAID should design its proposed interventions to promote the development of small and medium-sized enterprises through assistance in securing business from larger firms or government agencies, that is, linkages. This is the strategy chosen by numerous institutions, including USAID's Blue project, which is one of enhanced procurement. In other words, using the needs and skills of established, usually larger, corporations, linkages are set up with small and medium-sized companies which, in developing the capacity to supply their customers grow their own businesses. This approach sets aside for the moment, the question of export readiness in favor of economic development of the historically disadvantaged small and medium-sized enterprises. In this task the Blue Project contributes to small and medium-sized enterprise development and probably warrants strong consideration for an extension of its activities beyond the scheduled termination date of 30 September 1998.

The Blue Project deals with existing small and medium-sized firms for which it actively assists in establishing relationships and provides

help in such areas as developing business plans and the techniques of purchase contracts, etc.

Three areas, however, are not covered well by the Blue Project. The first is to develop linkages between small and medium-sized enterprises, not only with South African main companies, but companies overseas. Mentoring of one firm by another is clearly the way to go whether one deals with subcontracting major companies in South Africa or striving to develop stand alone exporters. It is not an easy task within South Africa to develop mentors, since too many of the buying companies are motivated by government policy favoring affirmative action and limit their participation to buying what they want, when and how they want it, without further involvement of the supplier. Attempting to identify prospective partnerships in the United States, for example, especially for small and medium-sized firms will most likely be even more difficult. Nevertheless, tying-in with US firms could provide a fresher and more outward looking perspective for South African SMMEs as well as possibly leading to export capabilities.

Second, many of the small and medium-sized firms intending to become suppliers to larger companies need technical assistance in areas such as manufacturing process, quality control, cost accounting and purchasing. The Blue Project, through the National Industrial Chamber, offers some training courses, but in terms of company-specific technical assistance, is limited to one consultant who so far has worked with eight firms on meeting ISO 9000 standards. True mentoring would be involved with these issues as well.

Third, both the Blue Project and Ntsika work with existing small and medium-sized firms. Ntsika states that it is not interested in start-up or survivalist enterprises. While reluctance to work with microenterprises is understandable in terms of manufacturing development, there should be some capacity to encourage new firms with the potential to grow to small or medium-sized status, expanding the universe of these firms engaged in industrial production.

### **Proposed Interventions**

The question, then, is how can practical interventions be developed that address the issues listed above? What is an appropriate role for USAID/South Africa, given limited resources and an immense problem. We suggest a targeted approach which:

- Looks to developing partnerships and mentoring relationships
- Engages in targeted TA to specific firms and industrial sectors
- Provides some support to incubators involved in developing new enterprises

## **United States Partners**

Several institutions in the US have been developed through the years to provide services to small and medium-sized manufacturing concerns, with an emphasis on those owned by members of disadvantaged groups. These institutions include the Manufacturing Extension Partnership (MEP) of the National Institute of Standards and Technology, the Small Business Development Center Program and the Minority Enterprise Development Agency, both of the latter administered by the US Small Business Administration (SBA). Each of these programs provides technical assistance to small businesses in the US.

MEP has 28 centers and is oriented to the improvement of manufacturing technology. Programs are conducted in cooperation with federal, state and local institutions to provide a variety of other services, such as marketing, workplace organization and business systems. MEP leverages its capability through partnerships with private and public-sector institutions joined in a broad umbrella group called the Modernization Forum.

The Small Business Development Center Program works through 56 small business development centers that offer one-stop assistance to small businesses requiring help in management, finance, marketing or technical issues. SBA provides less than 50 percent of the funding for these centers, with the remainder coming from state, local and private sources. Services are provided to start-up or other small businesses interested in expanding that cannot afford the services of private consultants; in other words, access is means tested.

The Minority Business Development Agency is directed at small business development, but only those businesses owned by members of disadvantaged groups. It serves in a way analogous to the proposed programs of Khula Finance or Ntsika, in that it provides training and assistance in improving the business skills of

small, minority enterprises, but it does not provide grants, funding or direct manufacturing technical assistance. Minority Business Development Centers assist small firms to take advantage of existing federal, state and local assistance programs and in developing business plans and loan application packages.

#### **Potential United States Partner Institutions**

Manufacturing Extension Partnership of the National  
Institute of Standards and Technology  
Small Business Development Center Program  
Minority Enterprise Development Agency  
Corporate Council on Africa

All three of these organizations work through extensive networks of voluntary groups, local government, educational institutions and private industry, as well as the several thousand small businesses assisted by the programs. None is set up (as of now) to extend either its services or network abroad. Choosing whichever of these organizations to participate in a business partnership program in South Africa will quite likely involve developing a new program linking a selection of existing centers in the process of identifying and recruiting prospective US participants. It may also be assumed that the new program would require funding, presumably from USAID.

Working with private-sector organizations may be a preferable alternative, assuming that interested groups can be found, and especially if they are prepared to share in the costs of the program. Many chambers and business associations are involved in outreach programs and various linkages with overseas groups, but extensive funding is unlikely to be forthcoming. The same probably would be true of university consortia or individual educational institutions: strong interest but no money.

A private sector group with strong interest in Africa and some available funding is the Corporate Council on Africa, which has 150 members, mostly large US companies, and is strongly interested in developing business with Africa. From discussions with executive staff, the consultants have learned that the Council is very interested in establishing an institution for business linkages in South Africa for which it is willing to provide half of the funding, projected at US\$340,000 over a period of three years.

## **Technical Assistance**

Provision of directed technical assistance apart from a linkages program would be useful, but could prove expensive. CSIR's sponsored Manufacturing Assistance Centers are intended to diagnose problems of small and medium-sized manufacturers, but not to provide the actual implementation services. The International Executive Service Corps has engaged in this type of activity, as has VITA. There are other groups, but even with volunteer participants, the cost of transportation and subsistence, even if on a partial basis, would be quite high for many if not most small and medium-sized South African enterprises. Other problems include effectively matching volunteer qualifications with client needs, something not always done well. Almost any program to provide skilled technical assistance to South African clients will be relatively expensive or very limited in its reach.

Two possible alternatives for the delivery of technical assistance are described below:

Building on the partnership program, USAID could encourage US firms to supply needed technical assistance to South African partners by sharing the cost of such assistance. US firms working with South African counterparts might well understand clearly where the problems are, but may prove reluctant to provide extensive technical assistance because the cost would exceed the likely business gain. A program to share the cost might tip the balance in favor of the assistance.

The Mission could explore setting up technical assistance centers as part of existing South African educational centers, such as Technikons, analogous to SBA's Small Business Development Centers, but more sharply focused on issues of manufacturing technology and process, and not on financial, marketing or planning issues, which should be addressed by the partnership arrangements. These centers could be staffed with qualified staff resident in South Africa, with perhaps a limited number of expatriate engineering consultants able to provide services over a fairly broad spectrum of industry.

## **Incubators**

Finally, the question of developing new enterprises. Developing business incubators could be a technique to expand the universe of qualified small manufacturing enterprises. In recognition of the value of industrial incubators, the Blue Project is forming a link with COMSEC, in Port Elizabeth, which, from the consultants' visits, appeared to be one of the most successful of such centers in South Africa. It is a slow process, however, as each incubator can probably handle only a limited number of prospective startups, possibly as few as ten.

The techniques are pretty well established, but funding would be the question. COMSEC was supported by local industries in Port Elizabeth. As the start-up enterprises develop, increasing amounts of space rental and reimbursement for services can be imposed, but incubators working with small and microentrepreneurs are not likely ever to become financially self-sufficient.

### **Definition: Incubator**

The incubator concept is essentially a form of matchmaking, in which prospective customers are identified and suppliers developed not from existing businesses, but from a pool of interested and dedicated potential startups.

The incubator concept is essentially a form of matchmaking in which prospective customers are identified and suppliers developed not from existing businesses but from a pool of interested and dedicated potential startups. This process requires more patience from buyers and organizers than working with existing companies, but is a necessary mechanism to develop more entrants to the pool of successful businesses owned by members of historically disadvantaged groups.

USAID's role in promoting incubators probably should be confined to providing seed capital to community or other local groups to develop these centers. The prerequisites for such support should include support from local industry or government entities-the "buyers"-and a significant degree of cost sharing from the South African side.

## **Summary**

In summary, the consultants recommend that USAID support the development of small and medium-sized South African enterprises to grow in terms of business breadth and volume and in terms of human and physical resources. The focus should be on growth in general of firms owned by members of historically disadvantaged groups, with export capacity desirable but not controlling.

Beneficiaries should be those enterprises able to form linkages with other, often larger, enterprises to provide goods and services, with emphasis on those sectors identified in this assessment as offering greater prospects for future growth. Linkages should not be confined to domestic firms, but expanded to overseas partners as well, especially US firms or organizations.

Current programs to build small and medium-sized business linkages to mainline industrial enterprises should be continued, but should be deepened by:

- Expanding the linkage or partnership network program to the US
- Developing the capacity to provide company specific technical assistance to South African small and medium-sized enterprises
- Encouraging the creation of industrial incubators to increase the number of qualified small and medium-sized enterprises

In chart form the recommendations and possible vehicles for USAID interventions are:

### ASSESSMENT EXPORT LED GROWTH POTENTIAL IN SOUTH AFRICA

<b>INTERVENTIONS</b>	<b>VEHICLES</b>
South Africa Business Linkages	Blue Project Second NGO
Expanded Linkages to USA	Manufacturing Extension Program Small Business Development Center Minority Enterprise Development Agency Corporate Council on Africa University Consortia Individual University
Technical Assistance	USA Volunteer Groups Cost Sharing/Partners Assistance Centers
Small Business Incubators	COMSEC Model (Community Sponsored) Industry Association (Stainless Steel) Development Group (Provincial Small Business Development Unit)

African National Congress, *Reconstruction and Development Programme*, 1994.

Nedcor *Guide to the Economy*, (Second Quarter 1997).

Department of Trade and Industry, *White Paper on National Strategy for the Development and Promotion of Small Business in South Africa*, 20 March 1995, 10.

Small Business Project, *Basic Conditions of Employment Bill: Addressing the Needs of Small Business* (an issues paper) 3 July 1997, 7.

*Business Times*, 12 October 1997, 11.

Ntsika Enterprise Promotion Agency, "Three Years Three Tracks," (November 1997).

## Appendix A: Reporting to Government

This section covers all the business application and reporting procedures required of most enterprises in South Africa – including business registration, business licensing, obtaining investment incentives, and all required tax registrations and reporting requirements.

### Business Set-Up

#### **5.1 Business Registration**

Office of the Registrar of  
Companies and Close Corporations  
Department of Trade and Industry  
PO Box 429  
Pretoria 0001

Telephone: (012) 310 9791

Facsimile: (012) 328 3051

The Registrar's office is responsible for registering all businesses and trade names. There are three categories of business formation from which a foreign investor may choose in South Africa:

- Private companies, including subsidiaries – designated by the words "Proprietary Limited" or "Pty" in its title -- may have up to 50 shareholders, but cannot offer shares to the public or transfer them. Private directors need not be South African nationals or residents.
- Public companies, designated by "Ltd" after their names, may offer shares to the public and there is no limit on the number of shareholders. A public company may not commence operations until receipt of the Registrar's certification.
- Close Corporations, designated by the letters "CC" after their names, can only be organised by natural citizens of South Africa and are limited to a maximum of 10 persons.

### **5.1.1 Registration of Companies**

The Companies Act of 1973 regulates the formation, conduct of affairs, and liquidation of all companies, including private companies, public companies, and subsidiaries. The act makes no distinction between locally-owned or foreign-owned companies.

All required forms may be purchased from a stationer dealing statutory forms for approximately R100.

All companies must first reserve a trade name. Application form CM5, in duplicate and stamped R50 in revenue stamps, must be submitted to the Registrar's office. In order to save time, it is recommended that 3 to 4 alternative names be furnished in order of preference. The search takes approximately 2 days. Following approval, the name will be reserved for a period of two months. Within this period the documents for incorporation should be submitted. An extension of one month may be granted with the submission of form CM6, stamped R20 in revenue stamps. The application for extension must be received by the Registrar prior to the two-month expiration.

Lawyers are not required for those registering under the Companies Act although more than 90 percent of investors use lawyers to manage the company formation process. Legal and other professional fees relating to the registration of a company depend on the complexity of the individual application. For ordinary applications, without complications, legal costs start at about R4, 500.

A standard Memorandum and Articles of Association is included in the Companies Act. A company may choose to submit their own version. However, this may slow down the approval process, as they would require close examination by the Registrar's office.

All companies must have an independent auditor to produce annual financial statements. At the time of incorporation, the auditor is required to sign an acceptance of the office.

Registration applications must be submitted by hand to the Office of the Registrar in Pretoria. If no errors or omissions are made, the application will be processed in three to five business days. A complete application includes:

- Copy of approved CM5;
- Power of Attorney (if attorney is used or if more than one subscriber exists);
- CM22, in duplicate;

- Memorandum and Articles of Association, in triplicate (two copies bound in book form and certified by a Notary Public);
- CM1 Certificate of Incorporation;
- CM2, stamped minimum R350 registration fee, plus R5 per R1,000 share capital or part thereof; and/or
- R5 per R1,000 no-par-value share;
- CM2a, CM2b, CM2c (if there is more than one subscriber) or CM2d (if there is only one subscriber);
- CM44 (if the Articles of table A or B contained in Schedule 1 of the Companies Act apply) or CM44a (if the Articles do *not* apply)
- CM44c;
- CM46 stamped R60;
- CM47 for each director;
- CM29 (return of Register of Directors); and
- Auditors consent on form CM31, in duplicate.

**Required Reporting.** Public companies must lodge annual financial statements and interim reports to the Registrar. For public companies that issue a prospectus, proof must be submitted to the Registrar that each director has paid full price for the shares, and the number of shares issued equals the stated minimum subscription.

Private companies are not required to file annual statements and reports with the Registrar.

### **1.1.2 Registration of Close Corporations**

Close Corporations were introduced by the Close Corporation Act of 1984 as a simpler form of corporate structure suited to the needs of smaller businesses. The act requires that they register with the Registrar of Companies, as well.

The reservation of a trade name is identical to that of a company.

No auditors are required for the registration of Close Corporations and lawyers are not necessary.

Due to the great number of applications received by the Registrar's office – up to 400 daily – approval takes five to eight business days. Applications may be submitted either by mail or by hand and should include the following: founding statement application, form CK1, in triplicate.

### **1.1.3 Registering a Local Branch of a Foreign Company**

With the exception of banking and insurance companies, any foreign companies, may establish places of business and carry on their activities in South Africa without forming a separate locally registered company. The establishment of a branch requires registration as an "external company" under the Companies Act. The application includes:

- Application form;
- A certified copy of the Memorandum and Articles of Association, authenticated by a South African consul, and a certified translation if not in English or Afrikaans;
- A notice specifying the registered office and postal address of the company in South Africa;
- The consent and name and address of the auditor in South Africa;
- A notice of the financial year-end of the company; and
- Details of the local manager and secretary of the company as well as details of the directors and their consent to act in that capacity.

The legal costs, in the absence of complicating factors, should be roughly comparable to those of incorporating a separate company. Total registration fees, which are calculated on the same basis as that of a company, may be higher if the foreign company has a large nominal share capital.

**Required Reporting** The company must appoint a South African resident as a legal representative. Unless an exemption is applied for and granted, annual financial statements of both the branch and foreign company must be filed with the Registrar.

## **Trademarks**

### **Office of the Registrar**

#### **Patents, Trademarks, Designs and Copyright**

Department of Trade and Industry

Private Bag X400

Pretoria 0001

Telephone: (012) 310 8701

Facsimile: (012) 323 4257

Trademarks may be registered under the Trademarks Act of 1963. After an initial term of ten years, a trademark may be renewed for further ten-year period. Registration extends both to trademarks capable of visual representation and to containers.

While an attorney is not required to file for a trademark, it is strongly recommended. A thorough preliminary trademark search, conducted by an experienced individual, can insure against possible conflicts, preventing the prolonging of an already lengthy process. Attorney fees for trademark searches range from R1,500 to R2,000. The attorneys must be registered as Patent and Trademark attorneys to be able to perform this kind of work.

Trademark applications may be lodged by hand or by post with the Registrar. The application fee is R266. On average, approval requires at least 2 years due to heavy backlogs at the Registrar's office. However, a business may trade during that period.

## **1.3 Specialised Licenses**

### **1.3.1 Cellular Licensing**

#### **SATRA**

Private Bag X1

Marlboro 2063

Tel (011) 448-2481

Fax (011) 448-2499

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All wireless transmission, ranging from cellular to VHF two-way radio to datapacket is regulated by a newly formed regulatory body, the South African Telecommunications

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Regulatory Authority (SATRA). SATRA functions were previously administered by the Ministry of Posts and Telecommunications, which also managed Telkom, the nation's telecommunications company.

SATRA has not yet established formal procedures for the application of specialised communications licenses, such as cellular licenses. Currently, applicants for large-scale communication such as satellite or cellular apply via letter to SATRA. Applications are currently handled on a case by case basis.

The procedures for licensing PABX systems and VHF radios remain the same as in the past. In almost all cases, the equipment supplier handles licenses for small-scale communications tools.

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### 1.3.2 Banking Licenses

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#### **Bank Supervision Department**

South African Reserve Bank  
PO Box 8432  
Pretoria

Tel (012) 313-3596  
Fax (012) 313) 3758  
Attn: Director of Bank Supervision

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The recent influx of foreign banking institutions has brought the South African Reserve Bank into the forefront. A Company wishing to be involved in banking has three options, all of which require approval of the Bank Supervision Department:

- ◇ A separate banking institutions
- ◇ A branch of an international banking institution
- ◇ An agency of an international bank

An investor must begin by incorporating a company with the company registry. As per company law, the bank must have at least 7 shareholders and 2 directors. Registration must be approved before applying for a bank license.

The investor must then complete form DI002 and have R50m in capital. Included with the application should be the following:

- ◇ A description of bank management, including resumes or Curriculum Vitae.
- ◇ A business plan

- ◇ Fee: R7000-8000

To apply for a license for a branch, in addition to the above information, the bank must supply the following:

- ◇ An investment grade rating by one of the internationally recognised research firms.
- ◇ Proof of assets exceeding US\$1 billion
- ◇ "Legal personality" – copies of articles of association or other legal documentation
- ◇ 2 persons designated as CEO
- ◇ Letter of comfort from mother institution

For either a bank or a branch, approval time is roughly 8 to 10 weeks. However, this is dependent on a complete application that is very infrequent. Despite the availability of facilitators to assist the investor, the application is extremely complex and lengthy. Banking licenses are not transferable.

It takes considerably less time to approve a bank agency. However, an agency cannot take deposits, but can merely act as an information conduit to the parent company. The fee for registration is R1000

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### 1.3.3 Mining Licenses

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#### Department of Minerals and Energy

Private Bag X59  
Pretoria 0001

Tel (012) 317 9000  
Fax (012) 322 3416  
Attn: Director General

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Prospecting and mining are regulated by the Minerals Act of 1992. The act refers to the issuance of three types of licenses – prospecting permits, mining permits, and mining licenses.

The investor begins by obtaining mineral rights. Mineral rights are recorded by the Deeds Registry. While mineral rights are associated with most properties, rights can be sold independent of properties, which can make the identification of the mineral rights holders

problematic. Furthermore, mineral rights can be divided by mineral type. This can make the identification of the owner of the mineral rights the most complex and time consuming in the process. Once the owner of the mineral rights has been identified, the process is the same for the transfer of land.

Once mineral rights have been obtained, the mining permit is applied through the Department of Minerals and Energy. The application must be accompanied by an environmental audit (EMPR) performed by the company. Additionally, the company must have funds equivalent to the estimated amount to rehabilitate the mining site. Every application for mining must be approved by the Minister. Processing time is approximately 1 month.

Due to the potential adverse effects on the environment and the risk of hazard to the labour force, a company engaged in mining in South Africa will be subject to numerous inspections throughout the life of the project. Statistics must be submitted monthly to the Department of Mineral Resources on the mine output.

#### **1.4 Analysis**

##### **Issues**

Company registration generally is smooth, but problems do exist as evidenced by the need for "shelf" companies. While a company can be registered in a timely fashion (3-5 days) investors note that delays begin when errors/omissions are found. Often times, an inspector rejects the application after the first incidence of error. In these cases, the investor resubmits the application, only to find another error exists. Because tax registration, and subsequently bank accounts, can not be established without registration, this process sits on the critical path.

Once an investor registers a Company or a Close Company, documentation is automatically sent to tax registration. This will be enhanced as both the Company Registry and the Inland Revenue Service are improving their technology and will link electronically. However, the Company Registry is not linked with any of the other registrations an investor must complete.

Most investors will employ an attorney to complete the company registration process. The large number of forms and complicated nature of the process makes it nearly impossible for the investor to complete the process without aid. Close companies are not an option for a foreign investor.

While an audit is not required an auditor is still necessary to state that the enterprise is a legal operator. As a result, the Close Corporation Act ability to attract emerging entrepreneurs has been limited; instead, it has been utilized mainly by companies that previously would have used the Corporation Act. Applications can only be filed in Pretoria, thereby increasing the cost to emerging businesses outside the Gauteng province.

It is worth emphasizing that married women are still required to obtain the written consent of their husband to complete the registration procedures (Form CM27) under the Corporation Act (although not under the Close Corporation Act).

Particular problems exist in the trademark section. Backlogs are two years and growing. Since the time of the divestiture during the 1970's, many popular overseas brand names' trademarks have expired and have been re-registered by other companies. Examples include Dockers and McDonalds. Lengthy court battles have resulted in the award of internationally recognised names to the owners, but this area is still problematic.

## **2. Investment Incentives**

Investors in South Africa, both foreign and domestic, may qualify for a number of investment incentives. A package of incentives schemes, the Manufacturing Development Programme, is administered at the national level. Though provincial and municipal authorities cannot offer national tax incentives, investors can often negotiate various cash incentives, rebates on land purchases, rates on property, and other relocation incentives with the local authorities.

### **2.1 Investment Incentives**

#### **Board for Regional Industrial Development**

Department of Trade and Industry

Private Bag X86

Pretoria 0001

Telephone: (012) 312 9113

Facsimile: (012) 325 5268

Contact: Dr. Francois Truter

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### 2.1.1 Tax Holiday Scheme

The Tax Holiday Scheme, under the Manufacturing Development programme, is available to both new foreign and domestic projects with a minimum R3 million capital investment in qualifying assets. The three objectives of the program are the following: (1) to attract investment into secondary cities, key urban nodes and emerging agglomeration areas; (2) to develop specific industries; and (3) to create employment.

The scheme consists of three components and new enterprises may receive a two-year tax holiday for each component for which they qualify, for a total of up to six years. The three components are as follows:

**Spatial Component:** Specific geographic areas are designated for the spatial component. These areas typically comprise secondary cities, emerging agglomeration areas and corridors, and key urban nodes. A list of areas which qualify can be found in Appendix \_\_

**Industrial Component:** For enterprises manufacturing in specific industrial sectors.

**Human Resources Component:** For enterprises with a ratio of human resources remuneration to value added in excess of 55 percent.

### Application Process

Applications for the Tax Holiday Scheme may be submitted to the Board for Regional Industrial Development either by registered mail or by hand in Pretoria. Application forms may be obtained from a number of sources, including all DTI offices, provincial administrations, provincial development agencies or corporations, foreign missions, and consultants working in the field.

A registered auditor is required to complete the application. Costs charged by auditors can range between R10,000 and R25,000.

All applications are reviewed by the Board -- a body made up of representatives from the Department of Trade and Industry (DTI), the Department of State Expenditure and Finance, The South African Revenue Service (SARS), and each of the nine provinces.

Once a complete application is filed, approval is generally received within 14 to 18 weeks. A complete application includes:

- Tax Holiday Scheme application;

- Business Registration certificate;
- Details of group structure and holding company, if project is part of a group;
- Market research report;
- Budgeted income statements and balance sheets for first three years; and
- Outline of intended budgets and financial statements.

### **Claims Process**

Upon approval of the initial application, the Board will advise SARS of the length of the tax holiday granted. Income tax returns, including provisional tax returns, must be submitted to SARS in the normal manner. In addition, monitoring through annual inspections by the DTI will be made to ensure the enterprise continues to qualify for the components for which it was initially granted approval.

#### **2.1.2 Small/Medium Manufacturing Development Program**

The Small/Medium Manufacturing Development Program (SMMDP) provides tax-free grants to new small to medium enterprises in specified manufacturing sectors where initial capital investment is below R3 million. There are no geographic requirements.

The incentive package provides for:

- An establishment grant payable for three years, calculated at 10.5 percent of qualifying assets;
- A profit/output incentive, calculated at 25 percent of before-tax profit, payable for an additional one year; and
- An additional two years profit/output incentive if the enterprise meets or exceeds a human resource remuneration to value added ratio of 55 percent, measured in the fourth year.

### **Application Process**

Applications for SMMDP may be submitted to the Board for Regional Industrial Development by hand or by registered mail. Application forms may be obtained from a number of sources, including all DTI offices, provincial administrations, provincial development agencies or corporations, foreign missions, and consultants working in the field.

A registered auditor is required to complete the application. The application process is the same as the Tax Holiday Scheme, requiring 14 to 18 weeks for approval from the Board.

A completed application should include the following:

- SMMDP application form;
- Details of group structure and holding company, if project is part of a group;
- Product and Production information;
- Marketing strategy;
- Budgeted income statements and balance sheets for first three years; and
- Outline of intended budgets and financial statements.

Following approval, each firm will be subject to an inspection by DTI to monitor compliance with incentives criteria. Domestic firms will be inspected after three months, foreign firms after six.

### **Claims Process**

The establishment grant is payable on submission of an annual reconciliation claim. The grant may be paid on a quarterly basis. The profit/output incentive is payable annually on submission of the annual reconciliation claim. Annual reconciliation claims must be supported by the annual financial statements normally submitted with the tax return. Close corporations participating in the scheme are required to submit audited financial statements. A factual findings report of a person accredited by the Board is also required. Persons accredited include Chartered Accountants, Commercial Financial Accountants and members of the SA Institute of Chartered Secretaries and Administrators. An inspection by DTI is also conducted for the first claim. Payment on the first claim takes longest, one to four months, due to the required inspection. Subsequent claims are paid much quicker, often within 21 days.

#### **2.1.3 Foreign Investment Grant**

Foreign-owned enterprises that qualify for either the Tax Holiday Scheme or SMMDP may also qualify for a Foreign Investment Grant. The grant covers the relocation costs of new machinery and equipment, including the cost of overseas insurance, freight, wharfage, handling, customs duty, local transporting South Africa, offloading and packing, local insurance and agency finance. The grant is limited to US\$ 250,000 for firms qualifying for the Tax Holiday Scheme and US\$ 50,000 for those qualifying under SMMDP.

## **Application Process**

Applications for the Foreign Investment Grant are included and submitted with both the Tax Holiday Scheme and SMMDP applications. Grant approvals are conditional to the approvals for the tax holiday and SMMDP approvals.

Required documentation includes:

- Foreign Investment Grant application;
- Market Research Report;
- Declaration of Ownership; and
- Technical data, manufacturers' brochures and pro-forma invoices, in English.

## **Claims Process**

The machinery must be purchased with foreign funds and transferred to South Africa within one year of the approved date for commencement of production. For projects approved under the Tax Holiday Scheme, the machinery and plant must be maintained intact for a period of two years after relocation. For those qualifying under SMMDP, machinery may not be disposed of for the duration of the three-year establishment grant.

The Board will appoint an accredited consulting engineer to evaluate the proposed project. Claims are also subject to the same inspection process as the SMMDP.

### **2.1.4 Other Incentives**

A number of other incentives are available to investors in South Africa, including Export Financing Guarantees, Medium-term Loan Financing, a Job Scheme, an Export Scheme, Import Financing, sectoral incentives, and others.

Other incentives – such as cash incentives, rebates on land purchases, and other relocation incentives – may be negotiated on an *ad hoc* basis. Some examples include the following:

- The City Council of Springs, in Gauteng Province, offers a negotiable rebate on the purchase price of land.
- Other municipalities offer land free or below market value to attract investment into their localities.

- Eskom, though its tariff rates are fixed, may offer cash incentives to heavy industry.
- Transnet may grant reduced rail rates on commodities destined for export.

### **Analysis of Incentives Applications**

For the Tax Holiday Scheme, the Act grants incentives on an ex-ante rather than ex-post basis, therefore a complicated approval process is specified which includes examination of the applicant's technical skills, potential market demand, and financial projections. This is problematic for two primary reasons. First, it introduces a lengthy approval process that typically has little value. Incentives granting bodies internationally rarely reject applications and have shown little ability to identify unattractive projects. Second, experience shows that officials involved in the approval process rarely have the skills or experience when compared to the entrepreneurs who are risking their own capital.

Normally, companies seeking to serve the local market are not influenced by incentives. In South Africa, the same incentives are given to both import-substitution and export-oriented firms. In order to be internationally competitive to attract export-oriented firms, it is more important to offer incentives for export operations. The current incentives are less competitive than competing countries' export programs.

There are no incentives for companies to expand. Some investors stated that the incentives deter expansion, instead focusing the investor to create new businesses instead.

### **3. Tax Registration and Reporting**

#### **South African Revenue Service (SARS)**

Department of Finance  
Private Bag X923  
Pretoria 0001

Telephone: (012) 315 5555  
Facsimile: (012) 325 2357

New enterprises must file with SARS for the following taxes: provisional income tax, VAT and Employees tax. The Regional Services Levies are payable to the Regional Services Councils

For purposes of tax administration, South Africa is divided into 34 geographic areas. For each area, local Receivers of Revenue are responsible for the routine collection of taxes.

### **3.1 Provisional Income Tax**

All businesses operating in South Africa are required to register for Provisional Income Tax, a tax on corporate income.

#### **3.1.1 Registration**

Upon business registration with the Office of the Registrar, SARS is notified by the Registrar and the business entity is automatically registered as a Provisional Taxpayer and issued a registration number. For income tax purposes, every enterprise must appoint a "Public Officer" to represent it in all dealings with the Revenue authorities, including annual returns. The public officer must be a resident of South Africa and the appointment must be approved by the Receiver of Revenue.

#### **3.1.2 Reporting**

Business entities are required to file annual tax returns to the Receiver of Revenue. Most file their returns to the Receiver in the jurisdiction in which they operate. Some larger companies, though registered locally, file their returns with the Receiver in Sandton, a "Centre of Excellence" better equipped to handle the financial returns of larger enterprises. Each business entity may choose its own financial year-end. Two advance payments based on an estimate of annual income, "provisional" payments, are made in each financial year – one at the six-month mark, one at the end of the financial year. For the first payment, the estimate must not be less than the taxable income for the latest year assessed. A third payment must be made six months after the financial year-end to reconcile estimated income with actual income. If the provisional payments were based on an estimated income lower than 90 percent of the actual taxable income, the taxpayer will be liable for an additional penalty tax of 20 percent of the difference.

A copy of the enterprise's audited financial statements, signed by the auditor and director, must accompany the return, as well as a tax assessment completed by the auditor.

Assessments are conducted within 3 months of filing, although new technology is being introduced to speed the process. Any refunds are paid within 21 days of assessment.

Collections may be handled through various conduits, including local magisterial offices or by post. SARS is considering commercial banks as possible conduits in the future.

The investigation division of the Receiver assesses all corporate tax returns. The department also conducts detailed tax audits, both desk and field studies, on an irregular selective basis and where material irregularities are suspected.

**Taxable Income:** Income tax is assessed on an enterprise's gross income earned from South African sources. The current rate is a flat 42 percent.

At present, there is no capital gains tax in South Africa.

For companies and close corporations, dividends received are exempt from normal tax. Instead, a Secondary Tax on Companies (STC) on net dividends paid, is assessed at the rate of 25 percent.

### **3.2 Value-Added Tax**

Business entities with a total value of all taxable supplies exceeding R150,000 in any 12-month period, is required to register for VAT. Voluntary registration is permissible for those with less than R150,000 in taxable supplies.

#### **3.2.1 Registration**

Those required to register for VAT must do so before trading commences. The company must have an active bank account before registering. The Receiver can issue a registration number within one to two days, after which trading may commence. Full approval requires two to three weeks. An application should include the following documentation:

- Registration form, VAT 101;
- Bank statement or cancelled cheque of enterprise;
- Certified copies of ID documents of:
  - Public Officers, if Company;
  - Members, if Close Corporation; or
  - Partners, if Partnership; and
- Certified copy of:
  - Articles of Association, if Company;
  - Founding Statement (CK1), if Close Corporation; or
  - Partnership agreement, if Partnership.

### **3.2.2 Reporting**

Payment for VAT generally takes place on an invoice basis. Accounting to the Receiver of Revenue is normally done on a bi-monthly basis. Vendors whose taxable supplies do not exceed R1 million annually, may apply to account on a payments basis. Remittances are filed using form VAT 201. Annual audits are conducted by the Receiver of Revenue on select returns.

**VAT Rates** VAT is assessed at a flat rate of 14 percent. The tax is levied on a broad base with very few exemptions. Exports are zero-rated.

### **3.3 Employee Taxes**

All enterprises with employees must register as employers and comply with Pay-As-You-Earn (PAYE) provisions, a tax on salaries and wages.

#### **3.3.1 Registration**

Employers must register with the local Receiver, using form IRP 101. Employers are issued a registration number within one to two days, though final approval requires two to three weeks. Trading and hiring may commence immediately, though. The Receiver must be notified of all new employees.

#### **3.3.2 Reporting**

PAYE is a withholding tax based on monthly salaries and wages. Employers must pay the tax to the Receiver within seven days of the end of the month in which the tax was withheld, using form IRP 201. An annual reconciliation form, IRP 501, must also be filed with the Receiver. An employees' tax certificate, form IRP 5, must be issued to all employees on an annual basis.

### **3.4 Regional Service Council Levies**

The Regional Services Council (RSC's) are responsible for administering Regional Service Council Levies. RSC's which provide utilities and other services to metropolitan and other areas, are funded by levies on turnover and on salaries and wages. Not all areas of South Africa are subject to the levies.

### **3.4.1 Registration**

All operating companies are required to register with the Regional Services Council in their area.

### **3.4.2 Reporting**

The Concils are responsible for administering the levies and distributing the funds. The regional establishment levy currently ranges from 0.10 to 0.15 percent of turnover. The payroll levy currently ranges from 0.25 to 0.35 percent of payroll. Each Council may set its own rates within these parameters.

#### **Ministry of Labour**

Private Bag X499

Pretoria 0001

Telephone: (012) 309 4000

Facsimile: (012) 309 4446

Employers are also required to register with the Department of Labour for employee contributions into the Unemployment Insurance Fund (UIF) and Workmen's Compensation.

Employers may apply by letter to the Commissioner for Compensation in Pretoria for each fund. Registration numbers are issued to the employer, as well as standard forms for the registration of employees. Full payments are made into the funds by the employer on a monthly basis.

Contributions to UIF are payable only in respect of permanent employees earning less than R58,188 per year. Contributions are based on salaries and wages – usually one percent is paid by the employee and one percent by the employer.

Contributions to Workmen's Compensation are payable in respect to employees earning less than R63,648 per annum, except pieceworkers, domestic servants, seamen and airmen. Contributions to Workmen's Compensation are based on the employee's annual wages and estimated risk of accident in the business. The range of costs starts as low as .25 percent for low risk occupations to 6 percent of payroll for high risk occupations. Instead of paying into this fund, an employer – with permission from the Commissioner – may obtain suitable insurance cover for the full extent of the potential liability.

## **Analysis**

Registration for taxation purposes does not usually take long and the response is usually timely. Facilitators are used for this purpose which makes the process easier. However, should an investor decide not to use a facilitator the registration forms are found to be complicated and the registration for the various types of taxes requires the same information to be filled on applications for each type.

## **Appendix B: Interview Notes**

In fulfilling the requirements of the terms of reference for the requested assessment of South Africa's export-led growth potential, the consulting team has interviewed over 90 individuals, companies and institutions. The selection of interview subjects has been geographically dispersed: a significant number have been located in Gauteng, but others have been interviewed in the western and eastern Cape Provinces, KwaZulu-Natal, Mpumalanga and in the United States. Our objectives have been two-fold: to obtain insight into the economic situation in South Africa as it relates to exports as well as insight into current measures and resources directed to strengthening small, medium and microenterprises (SMME's) in South Africa.

The interview notes that follow are grouped in seven categories:

- Government Entities (21)
- Business/Trade Associations (17)
- For Profit Companies (26)
- Non-Governmental Organizations/Parastatals/Not for Profit Associations (14)
- Economists/Research Institutes (9)
- Incubators (3)
- Banks (2)

### **CATEGORY 1: GOVERNMENT ENTITIES**

#### **1-1 United States Department of Commerce**

Mr. Finn Holm-Olsen  
Country Desk Officer, South Africa  
International Trade Administration  
Washington, DC 20230  
USA  
202-482-5148 phone  
202-482-5198 fax

Mr. Holm-Olsen stated that U.S. exports to South Africa had increased and were growing, but that U.S. imports included almost no manufactured goods. He discussed the investment conference held recently in Washington sponsored by the Gore-Mbeki Bi-national Commission that was well intended and illustrated good interest in South Africa by American business. He mentioned that USAID was funding a partnership program whereby U.S. companies provided technical

assistance to small RSA companies. He thought that developing trade relations between South Africa and other SADC member countries were evolving into a common market. He provided us a copy of the newly released 1998 Commercial Guide for South Africa prepared by the Foreign Commercial Service.

**1-2 Department of Economic Affairs and Tourism, KwaZulu-Natal**

Ms. P.N. Nkabinde, Director of Trade & Industry Services

7<sup>th</sup> Floor Metlife Building

391 Smith Street

Durban

South Africa

27-31-307-6111 phone

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Ms. Nkabinde was interviewed in Arlington, VA. She spoke of the strong interest of promoting investment in the Richards Bay and Durban areas. She was also aware of the strong provincial rivalries in this area as each province has set out separately to attract foreign direct investment. She confirmed that the Port of Durban operates at full capacity with little room for expansion and that there is local concern over development of Maputo. She thought that corporate outreach programs to SMME's had not been very effective to date. She felt that one of the major problems affecting minority development was an attitude of entitlement, i.e., that the Government is obligated and responsible for the solution to their problems.

**1-3 Department of the Treasury**

Washington, DC

Larry McDonald, Economist, Office of the African Nations

We discussed the Administration's proposed "Partnership for Economic Growth and Opportunity in Africa". This legislative initiative submitted to Congress in June reflects a changed "official" view of African development. Essentially the view that Africa is a chronic "basket case" entitled to permanent assistance has given way to an approach of limiting assistance to those countries which have taken appropriate steps to reorder their economies and permit private enterprise to share in development tasks. The proposal would grade Sub-Saharan African countries by the degree of economic liberalization and investment in human resources and then provide rewards ranging from liberalized access to the U.S. market and debt forgiveness to possible free trade arrangements with the U.S.

The bill also would fund programs for USAID in areas of regional economic integration and enhanced U.S.-African business relations. The bill is under committee consideration both in the House and Senate. There is concern that this initiative will be tied in with the Administration's request for "Fast Track" trade agreement authority with the danger that no trade legislation will pass this session of Congress. We noted that NAFTA-Parity legislation proposed in 1993-4 to balance incentives for the Caribbean Basin Countries has yet to be brought to a vote. McDonald expressed interest in the Assessment and we have agreed to meet with him and John Ralyea in late October. McDonald also noted the impression given in Washington in discussions with South Africans that while the U.S. may welcome the RSA's assumption of a key role as a Sub-Saharan African country, the South Africans don't necessarily consider themselves to be a part of Sub-Saharan Africa.

**1-4 Development Bank of Southern Africa**

Dr. Claudia Manning, Senior Specialist, Spatial Development Initiatives  
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27-11-313-3086 fax

Dr. Manning related that the original role of the DBSA was to finance development in the Homelands. Obviously its role has changed. During its evolution to its present status, the Bank did engage in some export and small business development activities, but is now strictly confined to the financing of infrastructure projects. About 18 months ago, a "Southern" Division was established with the objective of supporting infrastructure development in the SADC. The Bank's role in the Spatial Development Initiatives is administrative, not substantive, as selected Bank staff members have in effect been seconded to DTI to carry out the SDI's. The Initiative of immediate concern to Dr. Manning is the Fish River SDI for which will be held an investors conference in early November in East London at which some 60 to 70 foreign investors are expected to be present.

**1-5 National Economic Development and Labour Council (NEDLAC)**

Shan Ramburuth  
Trade and Industry Chamber  
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25 Owl Street  
Auckland Park 2092  
South Africa  
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NEDLAC was created by the new ANC Government as a forum to resolve issues between labor and management, and within the framework of the consensus reached, contribute to the translation of policy into legislation. Apart from social issues involving health, education and housing, the Council has addressed economic issues, especially those dealing with restructuring industry, taxation, the role of state-owned enterprises and trade. The principle advocates for the two sides have been the Confederation of South African Trade Unions (COSATU) and the South African Chamber of Business (SACOB). Small and disadvantaged business organizations are also members of the business side, but are not yet sufficiently well organized constituencies to have much voice in the deliberations. SACOB attempts to speak for the whole private sector, but as a representative of traditional, big business, lacks credibility among the SMME's.

Issues which affect SMME's on which they should speak out include the proposed 1.5% payroll tax for skills development and policies to be developed on labor flexibility, competition and land reform. The proposed payroll tax if enacted could result in SMME's contributing more than the potential benefits received, that is the tax payments will exceed any training support received.

As to the current labor legislation, it appears that COSATU has chosen to take its case to Parliament. There is a built-in conflict between NEDLAC and Parliament as to the locus of the political process. If policy issues are resolved in NEDLAC, Parliament's role is reduced to "rubber stamping" the consensus reached by NEDLAC, a role many Members resent. Moving the debate to Parliament enhances its role, but calls into question the appropriate role for NEDLAC.

Mr. Ramburuth's review of government policy for SMME's mentioned DTI's creation of the National Small Business Council and Ntsika. He commented that neither was delivering services at present, but were in the management and institutional development stage. Other development policies like the Spatial

Development and Industrial Cluster Initiatives have not so far had an SMME focus, but this will likely change.

#### **1-6 Industrial Development Corporation of South Africa**

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27-11-269-3117 fax

The main objectives of the IDC are to provide finance to the private sector for the establishment of new and the expansion and/or modernization of existing industries, to form partnerships with local and foreign suppliers of know-how and capital to develop new industries, to create employment opportunities and encourage the training and better utilization of labor, and to promote exports, import replacement and regional development.

Land reform is a major issue facing the country, and of particular concern to SMME development.

Among procurement programs, South African Breweries (SAB) is willing to go into ventures with SMME's that include lending their management skills. SAB is also willing to jointly fund some projects. Anglo-Vaal's procurement program in Western Cape is supposedly working very well.

The South African government is not doing enough procurement from SMME's through its procurement programs.

Finance is available to industrialists from the formerly disadvantaged communities who intend to establish new or buy into existing manufacturing businesses. IDC can give equity to strengthen the capital structure of a particular project/enterprise. IDC does not have a controlling interest in any of its ventures, and its level of assistance is negotiated on a case by case basis. Also, the IDC does not have direct involvement in management of ventures that it assists in.

IDC has no incentive schemes that are in-house, they are not involved in the micro-side of business. The IDC looks at firms with a minimum of R500,000 in assets and only makes loans of R200,000 or more.

**1-7 Investment South Africa**

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ISA is involved in promoting inward investment, investment that may or may not translate into South African exports. There is little direct connection between ISA and SMME's. There was discussion of the proposed Industrial Participation Program which will apply to foreign firms winning government procurement tenders of \$10 million or over in value. The Program will require the foreign firm to spend 30% of its Rand earnings within the RSA over a period of three years. Some of these funds could be directed to SMME development – training programs for example.

There was discussion of a Danish program which put Danish companies into partnership with SMME's owned by previously disadvantaged persons. The program is now ended. It was said that the failure rate was 80%, with the other 20% not necessarily assured of success.

**1-8 Khula**

Gideon Sam, Chairman of the Board  
29 Clonmore Road  
Bryanston Ext. 7 2021  
South Africa  
27-11-463-1384 phone  
27-11-463-1345 fax

Mr. Sam is chairman of IBEC as well as Chairman of the Board for Khula. His concern is that Khula's corporate mentality is geared towards financial/industrial development, rather than developmental. He believes that the most serious constraint affecting black development in South Africa is the severe educational deficit and the lack of a self-help entrepreneurial attitude. He credits his own success to having had the good fortune to attend a private English language school in the Western Cape rather than an Afrikaans public school which left the

bulk of its students poorly educated and unable to take advantage of opportunities when available.

**1-9 Khula Enterprise Finance**

Jonathan Aspelung.  
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7 Mellis Road  
Rivonia Ext 20  
South Africa  
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27-11-807-8471 fax

Khula works through intermediaries. It acts mainly to encourage previously disadvantaged to go into business. It works through the five big commercial banks, and lends a maximum of R600,000 per program. Khula is not focused, per se, on export. Banks generally target loans of R100,000 or more, perhaps slightly lower in rural areas.

Target areas are manufacturing, rural, women entrepreneurs, and the previously disadvantaged. Access to finance is of great importance. Khula staff have been talking to export managers to get them to provide access to finance. There are many important issues in starting up a business even before talking about money. In rural areas, people generally cannot own land, thus they have no collateral. The land is spoken for through tribal councils, etc.

Not all bank branches provide SMME advisory services due to cost-cutting. Cost of lending small sums is sometimes too high for banks. Khula develops programs for banks to help them lend money, which banks are hesitant to due in cases where prospective borrowers fail to meet standard lending criteria.

Franchise Fund of Southern Africa helps out. Khula works with them. Most franchising involves trade or services, not manufacturing.

The Manufacturing Technology Centers that Ntsika is promoting and supporting are really important. It is good to look at export, but there are much bigger issues: access to finance, for example, specifically in rural areas.

Performance guarantees still remain a big hurdle, SMME's must put up money before starting. Khula provides performance guarantees through Fedgen (part of Khula).

Khula does not deal with small businesses directly, but refers them to Khula clients all over the country. Khula is a finance wholesaler. It concentrates in sectors in which market failure has been traditionally high.

**1-10 Department of Trade and Industry (General Meeting)**

Etienne Pickard, Paul Pieterse, Phoka Motsilili  
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South Africa  
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Mr. Pieterse explained that DTI had three basic functions: job generation, administration of regulations pertaining to trade and industry and export promotion. Trade functions were divided among a bilateral trade directorate with divisions for the Americas, Asia and the Middle East and Europe, another directorate for Africa and an office for multilateral trade relations. The Directorate for Export Promotion is the parent office for South Africa's foreign commercial service. Why the personnel were part of the Foreign Affairs Ministry, their operations were directed and supported by DTI. Incentives and assistance to exporters was provided in part by SAFTO, but there were also programs involving information, credit guarantees and support for trade missions. Small business promotion activities had been reorganized in March 1995.

DTI's role is that of a wholesaler of funds and services to a series of "retailers" who in turn would provide assistance to SMME's. As part of this assistance, government subsidies for trade missions are graduated: 50% of the cost is covered for large companies, 70% for medium ones and 80% for small companies. In support of trade, the DTI had been working with the International Trade Centre in Geneva to develop a trade opportunities and trade information database to supply information to exporters. They were also developing a guide for exporters.

One of DTI's major responsibilities, the promotion of trade and industry, is being supported through a series of cluster studies. This activity is expected to identify industrial "clusters", that is, groups of closely related industrial processes or activities, which through additional investment and strategic alliances can become more competitive and increase exports and add jobs. In addition to the cluster study approach, the DTI has developed the "butterfly"

strategy for export development: the body is Africa, one wing is South America and the other India and South-east Asia.

With respect to SADC, South Africa runs substantial bilateral trade surpluses, in some cases at a ratio of three to one, selling manufactures and consumer goods and buying commodities and raw materials. The African neighbors are sensitive to this imbalance and are seeking means to reduce it. Despite these concerns it is South Africa's objective to reach free zone status within a period of seven years.

The officer responsible for Small Business Development was unable to spend time with the consulting team and this subject was postponed for later discussion.

**1-11 Central Statistical Service**

Liz Coetser, Users Service  
Steyn's Arcade  
274 Schoeman Street  
Private Bag X44  
Pretoria 0001  
South Africa  
27-12-310-8095 phone  
27-12-310-8500 fax

Ms. Coetser of the Users Service section of the CSS informed me that they do not have data on export information but that such data can be found at the Department of Customs and Excise. The CSS is active in data collection but has not been in a position to respond to the many approaches made by exporters or potential exporters looking for information.

**1-12 Ntsika Enterprise Promotion Agency**

Letsile Mphachoe, Program Manager, Training, Sizeka Rensburg, Marketing and Business Services  
8<sup>th</sup> Floor Prodinsa Building  
501 Pretorius Street  
Arcadia  
Pretoria 0001  
South Africa  
27-12-341-1120 phone  
27-12-341-1743 fax

Ntsika holds that small businesses have potential but not the capacity to develop manufacturing. Ntsika's role in developing this capacity is through information, training and counseling. The agency acts as a wholesaler, using some twenty service providers to interface with SMME's. Services to clients are subsidized on a sliding scale of 7 to 40%. Sizeka mentioned that three vendors exhibiting handicraft items at gift shows in New York and San Francisco had each booked \$300,000 in orders. Other areas of potential were food processing directed at Middle East and SE Asian markets: a case in point being an operation to produce sun dried tomatoes north of Gauteng. Other areas of potential are cut flowers and well designed wooden furniture. Ntsika believes that its efforts should be directed at small, disadvantaged enterprises and not at micro which usually are not able to generate sufficient income to create jobs or export ready products. Ntsika plans to work through NGO's and provincial structures.

**1-13 Provincial Government Western Cape, Department of Economic Affairs and RDP**

Rizaan Hendricks, Assistant Director, SMME Affairs  
PO Box 979  
Cape Town 8000  
South Africa  
27-21-483-3945 phone  
27-21-483-3483 fax

Mr. Hendricks said that generally large export companies did not outsource. Chambers of Commerce ought to help in this process. There has been some transfer of land and skills from white farmers to disadvantaged individuals. Fishing cooperatives set up for disadvantaged groups had failed, primarily because of inability to sell outside the current fishing monopoly. The textile and apparel industry has begun the process of restructuring and outsourcing. At least one major manufacturer has established training programs with the objective of sub-contracting some of its production. In passing, Hendricks said that Levi Strauss' operation in Cape Town was sourcing its denim from Kwa-Zulu Natal and was doing well since its start up in 1995. However, its sales were at the expense of other makers of jeans and the company was in effect capturing market share far more than it was expanding the market.

The DEAT reviews the creation of new business entities. It has changed its focus from Reconstruction and Development (RDP) to Local Economic Development (LED). Programs are now under way in nine townships with small business nodes under development on the west coast and in Philippi. The

obvious objective of the LED programs are to create sources of employment in rural areas of the Western Cape to reduce the migration of unemployed rural residents to Cape Town's outskirts. DEAT has concluded that the capacity of NGO's to deliver services was overestimated. There have been few standards for performance and an over concentration on "micro", that is, survivalist clients. DEAT will provide funding in the future to those few NGO's who have proven to be efficient. Emphasis will not be on microenterprise but instead on channeling resources to town authorities to assist small and medium enterprises. There will be efforts made to combine local resources (specific crops or mineral resources, for examples) with opportunistic training. By April 1998 there will be an LED unit in each town with DEAT providing overall coordination of the program. Initial funding for this program is R1million from the Provincial Government. Support will also come from WesGro and local municipalities which have a R2.5 million fund for export development.

Among SMME operations getting under way is the production of school uniforms. The attitude among disadvantaged groups towards education is changing and the market for school uniforms is booming. They are also trying to develop SMME tour operators to take advantage of growing tourism. Hendricks complained that there is no national policy developed in support of research into SMME development, or appropriate roles for local municipalities or chambers of commerce.

#### **1-14 CSIR Division of Textile Technology**

Richard J. Ragland, Program Manager, Emerging Industries  
PO Box 1124  
Port Elizabeth 6000  
South Africa  
27-41-53-2131 phone  
27-41-53-2325 fax

Mr. Ragland is involved with technical studies and training aimed at developing the indigenous sheep and goat industries which provide wool and mohair. The formal sector, commercial farms which are largely white owned, are doing well in the production of both wool and mohair. Most of the production is still exported as "tops", the scoured and combed fibers, and not spun into yarn or woven into fabric. In many instances, production of mohair, or mohair blended fabric in the Eastern Cape uses mohair yarns imported from Europe. In the informal sector, stealing of animals is a continuing problem. One of the objectives of the CSIR program is to develop small (cottage) industries based on wool and mohair production which would serve to absorb new entrants to the job markets.

Supply constraints include the conversion of sheep and goat production areas into game farms. Technical services to small farmers to assist in developing additional production have been cut back owing to the amalgamation of two former homelands (Ciskei and Transkei) into the Eastern Cape Province in 1994 which has left the Agricultural Department and Agricultural Extension Services hard hit and not yet restructured sufficiently to provide services at an effective level. It was agreed that efforts should be made to add value to the wool and mohair produced in the Eastern Cape instead of exporting the bulk of it in semi-processed form.

**1-15 Province of the Eastern Cape, Economic Affairs, Environment and Tourism**

Keith Wattrus, Regional Director, Port Elizabeth, Eastern Cape Province,  
Valence Watson, Member of the Board, Coega Initiative  
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Greenacres 6057  
Port Elizabeth  
South Africa  
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27-41-33-77-55 fax

Wattrus was in route to a meeting at the provincial capital of Bisho, to attend a planning and budget meeting for economic development in the Province. The general impression was that there is considerable turmoil in the provincial government and that it has been hard to develop a consistent and inclusive policy for development. Personality issues and internal political maneuvering seem to occupy much of the government's energy.

Watson was in East London to attend a meeting concerned with establishing a small business manufacturing incubator to be called Emanti. The initiative would involve establishing a small industrial park and would appear to be modeled after the COMSEC operation in Port Elizabeth. The Ntsika, Khula, Provincial and central government staff involved seem not to want to deal directly with COMSEC, purportedly because COMSEC and Errol Heynes – the latter considered “colored” in the South African context - are viewed as having been too closely associated with the white establishment.

**1-16 Province of the Eastern Cape, DEAET**

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Davies commented that disadvantaged business groups had tried to export but failed. He reviewed the industry clusters which offered potential in the East London area as textiles/apparel, automotive, food processing and furniture. In the case of the automotive industry, its array of small business vendors were nearly all white. Disadvantaged groups were now providing services to the bigger companies in the form of gardening, cleaning and guard services, but not manufacturing. Food processing offered promise but was inhibited because of supply constraints. The supply of agricultural inputs was tied in to the province's Department of Agriculture which was still getting organised and which was short of funds.

The shipping of timber and the production and export of furniture were doing well in the area but not relying much on outsourcing. Small manufacturing operations needed to be tied in with private sector cluster studies, some of which could offer opportunities for a group of small companies to become involved.

**1-17 Department of Trade and Industry, Regional Representative, Port Elizabeth**

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Mr. Jordaan said that previously disadvantaged business people were overwhelmingly engaged in trade: that he did not know of a single black exporter in the Eastern Cape Province. He also thought that there was an urgent need to channel development to rural communities in the Eastern Cape such as Queenstown and Butterworth in order to slow the migration of unemployed from rural areas to urban centres like Port Elizabeth. Government had announced a number of programs to assist SMME's but generally had

failed to deliver services. At present, the chosen vehicle for SMME business empowerment appeared to be government procurement. The municipality of Port Elizabeth had just extended an invitation for SMME's to register on a list of suppliers to be contacted when municipal tenders were to be let. Since this is a self-selection process, Jordaan feared that a substantial number of people without established capacity to supply would list themselves in hopes of winning tenders and working out some sort of deal with others to supply the goods or services.

Mr. Jordaan personally provides assistance to individuals interested in international trading and tries to educate them into the vagaries of contracts, letters of credit, representation contracts, etc.

**1-18 American Trade Center, US Foreign Commercial Service**

Mr. Daniel Harris, Senior Commercial Officer.  
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Illovo  
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Mr. Harris concurred with the idea that most American firms were engaged in sales, distribution and services, but he did point out that some were engaged in manufacture for export. Ingersoll-Rand's subsidiary for example while mainly engaged in the import, sales and servicing of its line of equipment, did manufacture one type of pump which is now exported widely. Eveready the battery maker has bought into a South African firm in Port Elizabeth that makes automotive batteries. Levi Strauss's operation in Cape Town actually does export some "501" jeans to Europe. Johnson and Johnson and Federal Mogul also do some manufacturing here. Dow Chemicals is also contemplating acquiring a major South African chemical concern that will place it into manufacturing. General Electric's announced program of SME development was just that, a program, which GE may develop in the future if conditions warrant. As to announced government procurement programs, like the Industrial Participation Program, large American companies will probably be able to abide by the program, but medium sized American firms may be deterred since they don't have the capacity to engage in businesses or investment programs outside their established product lines. The Commercial Section has been active in promoting SME business alliance programs through supporting conferences of Women in Business and Minority Business Enterprise groups.

**1-19 Commercial Office, Embassy of Spain**

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Mr. Zapico spoke about the need to speak with the South African embassy in Madrid for more information on exporting to the Spanish market. According to Zapico, the Spanish Commercial Office is not directly involved with SMME development but sees great potential for South African exports to Spain. In particular, handicrafts are seen as having great potential and market in Spain.

Additionally, several other west European countries could be potentially lucrative markets for SMME exporters of handicrafts, including the UK and Germany. There is already a certain amount of exporting taking place of handicrafts to the UK, and Germans are increasingly interested in South African crafts and artists.

Spanish consumers are not as interested in South Africa as other Europeans, but there are increasing talks about establishing greater trade links between the two nations. SMME development could play a role.

**1-20 Development Bank of Southern Africa (DBSA) Resource Centre**

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The DBSA Resource Center has a database for all material located at the library. SAFTO is the main exporter resource, and between the two organizations there is no duplication of effort. ISA and Wesgro are working together but the extent that they are sharing database and other information is unknown. The DBSA database reflects data in-house and there is currently no access through the Internet, although it may be planned for the future.

Services provided to small businessman by the DBSA Resource Center are currently free of charge at this stage. Materials do not leave the library.

Ms. Russell mentioned that the State Library in Pretoria has almost everything that has been published to date in South Africa on small business development and various other relevant resources. The information is organized on various databases.

**1-21 Center for Scientific and Industrial Research (CSIR)**

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South Africa  
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27-12-841-3011 fax

CSIR's original mission was research in high technology fields for the benefit generally of large corporations. It has nine different divisions directed at nine fields of technology.

It has in the past two or three years it has refocused activities to include technological research of benefit to small and medium enterprises. This has not been done by setting up a new division but by grafting on SMME development activities to each of the existing nine divisions.

Beyond this CSIR has become increasingly involved in developing a mechanism to deliver technology transfer to SMME's. Reviewing international activities in this field including the manufacturing extensions service developed by NTIS and the DOC in the U.S. it has developed a program of Manufacturing Advice Centers (MAC) which will be established in various parts of the country to identify specific SMME manufacturers, diagnose problems especially in technology and assist in lining up service deliverers to attack the problems. The first MAC has just opened in Port Elizabeth, a second one is scheduled for Durban in November and early next year a third will be opened in the Northwest Province. The latter will be in conjunction with the National Union of Mineworkers and will be dedicated to developing industry or other activities for mineworkers laid off from the mines. The Durban center will specialize in plastics and chemicals. The PE center has a broader mandate consonant with the industrial base in the Eastern Cape.

## **CATEGORY 2: BUSINESS/TRADE ASSOCIATIONS**

### **2.1 South African Stainless Steel Development Association (SASSDA)**

David Slater, Executive Director

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South Africa

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SASSDA was founded 1964 - the major players in the steel industry at the time foresaw the need for a development association to foster the growth of the industry.

Currently SASSDA has a membership of 350 companies of all sizes. Membership fees are R400 / annum. SASSDA offers a range of services to the industry :

- technical services across the board
- material / production information supplied by associate engineers
- feasibility studies regarding new projects members may be interested in
- SASSDA develops educational programs for all stakeholders in the industry for all levels of labor and management

An 18 module educational program has been established and is on offer to technikons, universities and other colleges. This course is designed to train people in specific yet comprehensive skills for the stainless steel industry.

SASSDA is aiming to develop an educational /service culture for the stainless steel fraternity. Courses on business skills advancement is currently being developed by professionals inside and outside the industry.

The industry with the assistance of SASSDA and leading players is focusing attention on export markets. SASSDA's buyers guide, which supplies technical and other information on the South African industry and details of companies and their products, is the major information source for international trade. This publication is available internationally and has been the single most important factor in generating inquiries for the industry.

SASSDA is currently in the process of establishing networks through the industry. The objective is to establish business linkages amongst firms of all sizes. This activity has paid off in the past when firms combined efforts in order to cope with large export orders (e.g. in the production and export of electrical cables).

Potential for SMME development in the industry for domestic and export production:

- There are opportunities in certain niche markets where production is not feasible for large producers, e.g. brackets for larger units such as kitchen sinks.
- Any activity which requires little capital equipment for production, e.g. polishing of stainless steel.
- Joint ventures can be formed between big and small players to supply less sophisticated products demanded by the African market.
- There is the possibility of establishing cottage industries especially in polishing.

**2-2 National Association of Automotive Component and Allied Manufacturers**  
Bedfordview, Gauteng.  
Clive B. Williams, Executive Director  
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Bedfordview 2008  
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Automotive components manufacturers find themselves in the middle of the battle to shift South Africa from a highly protected, small market economy to a globally competitive one. The latest Government program, the Motor Industry Development Programmes (MIDP), initiated in 1995 conflicts with WTO requirements which South Africa is committed to meet. South Africa has been allowed a transition period and the MIDP is set to expire in 2002. The industry is lobbying Finance Minister Trevor Manuel to seek an extension to 2008. Essentially MIDP abolishes local content requirements for automotive

manufacture but does impose rather substantial import duties, presently 42.5% for components. Car assemblers in South Africa are permitted to import up to 27% of the value of the car duty free if these imports are matched by exports. For example, a company exports R1 million in value of automotive wheels and gets a certificate to that effect. This certificate is transferable and will permit another company to import components in the value of R1 million without paying the otherwise due R425,000 in import duties. Assume that the wheel exporter and component importer split the gain, the exporter has the capacity to sell wheels overseas at cost and rely on the R200,000 plus from the importer for its profit. In trade terms this is a subsidy and illegal under WTO rules.

Absent protection, however, the South African automobile components industry is in for a severe restructuring. The industry believes it will need five to six years to upgrade or replace machinery, most of which is 15 years old. Without transitional assistance, current employment in the industry of about 44,000 will decline to about 15,000. Overall employment has already declined by approximately 3,000 in the last two years. Illustrative of the problem, Mr. Williams spoke of two plants that make pistons. Before modernization, possible with new capital investment, each plant employed 300 workers. With modernization the plants have tripled production capacity: each now employs 20 workers. Under the best of circumstances, it is likely that this industry will suffer a net decline in employment in the short to medium term.

It is a support industry to the car-makers. Currently cars made in South Africa are one third local and two-thirds import in overall value. South African car-makers have not rationalized their production: there are still too many models and name plates for the size of the market. A plant needs to assemble 80,000 units annually to be efficient, South African plants average 30,000 units. As a whole, they are not concerned with SMME's, but only with quality and price of components. South African trade policy is important here as well. The arrangement which permitted Hyundai to put up an automated assembly plant in Botswana which employs 300 and export freely to South Africa had a sharply negative impact on Nissan in South Africa which laid off 1,200 workers as a result. Reduction in tariffs on heavy commercial vehicles and buses led to the closing of assembly operations in South Africa and their relocation offshore.

Owing to the nature of the automobile industry historically in South Africa, the components industry is suited for niche markets favoring low volume, flexible production of customized products. The industry has been successful in exporting leather seating, catalytic converters and aluminum alloy wheels. The automotive components industry could evolve into a tiered structure in which SMME's sell parts and supplies not to car manufacturers directly, but to sub-

assembly suppliers. As the automobile industry moves away from totally vertical integration, that is, towards unbundling, the role of sub-assembly suppliers expands. Sub-assemblers then assume the tasks of buying components, assuring quality and delivering just in time to the manufacturer.

There are some pitfalls ahead, however, as raw material suppliers for such items as steel and aluminum sheet and plastic resins tend in South Africa to hold near monopoly positions and to be more interested in export than in supplying domestic fabricators so there are few price breaks for local industry. There is also a general deficiency in the industry of skills levels adequate for automated production and intense attention to quality control standards. The industry needs a training board. The industry is also highly unionized and restructuring will not be without labor-management conflict at some point. Unfortunately union leadership has been weakened with the movement of its previous leadership into government positions.

NAACAM is actively engaged in lobbying government in behalf of the industry for both its members and non-members. They publish a directory which is quite informative with respect to the production and size of each of its members.

## **2-3 South African Chamber of Business (SACOB)**

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SACOB is the premier umbrella business organization in South Africa. Its membership comprises some 190 corporations, 90 Chambers of Commerce and Industry and 60 trade or business associations, giving it a coverage of 35,000 companies in South Africa, most of which are small and medium sized. It has formed a new council to look specifically at issues affecting SMME's. Mr. De Lange mentioned that the Johannesburg Chamber of Commerce and Industry is working with the Soweto Chamber to promote minority enterprise development. He also mentioned that the Export Marketing Assistance program (EMA), which replaced GEIS (General Export Insurance Scheme) has a sliding scale of fees for its services, with disadvantage companies paying only 20% of the cost of the service.

SACOB sees its primary role that of serving as the "voice" of South African business. It maintains a legislative liaison office in Cape Town and supplies continuously updated data on government matters to its membership. Since the new government has come into power, SACOB has not been able to maintain the degree of rapport and influence with government it previously enjoyed. Using the analogy of "voice", in many instances the Chamber "speaks," but it has no sense that government "listens". A case in point is the new water policy just announced by the government. There was no "green paper" (a preliminary policy document open to consultation) and no consultation with the private sector before the announcement. Since water is scarce in South Africa, its control and allocation are important to all, including industry.

Regarding exports, the Chamber is promoting a "butterfly" approach. The body is the South African Development Community (SADC) with a left wing stretching to Latin America and a right wing towards India and Southeast Asia. This approach builds on the traditional export base of Western Europe and North America. There is concern, however, that SADC may become engulfed with member countries competing one with the other for the same type of investment or same export market. South Africa enjoys significant bilateral trade surpluses with SADC countries, exporting manufactured goods and importing commodities, a situation worrisome to many. Interest in further bilateral trade negotiations with South Africa is for a number of SADC countries an attempt to balance trade, to obtain greater access to South African markets while holding constant South African access to their markets. In sum, SADC does not necessarily represent an ever expanding market for South African industrial production.

It is also the sense of SACOB that government had not connected industrial policy with trade policy. To overcome problems of high internal transport costs, and to be competitive in world markets, one solution promoted is to locate new industries at coastal port locations. Does the government really intend to abandon its not insubstantial industrial base in the central provinces like Gauteng and the Free State? In general, there seems to SACOB to be a lack of coordinating in forming government policy and perhaps a lack of cohesive policy objectives.

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**2-4 SABRITA British Chamber of Commerce in Southern Africa**

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SABRITA's primary function is to promote trade between Britain and South Africa. It works primarily with big companies and has very limited involvement with small to medium-sized enterprises.

Van Lingen described South Africa as not having a targeted, focused export strategy. There has been a tendency within the SA government to confuse export promotion policies with job creation policies.

The Business Community has little influence over government policies. Business associations are seen as representing the interests of white capitalists. From the standpoint of business, the Department of Finance and the Department of Trade and Industry are seen as the most 'business-friendly' agencies. With regard to policy implementation, the Department of Trade and Industry's hands are tied to some extent by their need to vet new policies through COSATU.

Areas with export potential for SMME's: wooden/metal furniture; computer-related manufactured goods (i.e. joysticks); clothing; auto components; security equipment; packaging materials; stationery; aluminum products.

**2-5 South Africa Foundation**

Paul Runge, Director  
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The South Africa Foundation is an organization with approximately 50 corporate members. Banks have an important role to play as coordinating agents, an

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example of which is the Maputo Corridor project. Mr. Runge believes that there is great growth potential for SMME's in the building and construction industry.

The role of government in SMME development is seen to be essentially that of a facilitator, encouraging private initiative and ensuring protection of private ownership and property rights.

Training SMME's for exporting requires a lot of effort and time. Globalization is going to hurt South Africa and its exporters, competitiveness will be increasingly harder for South African companies playing in the world market.

South Africa is moving swiftly from a position of partial economic isolation towards full integration with the global economy. The government supports tariff reduction and removal of barriers to entry, in addition to free flow of capital in and out of South Africa. These changes could generate repercussions due to the negative consequences of some of these actions. This could be particularly true on the labor market, where competitiveness is a problem.

There is a consensus in South Africa that the objective is a thriving small business sector as well as a core of large world class major corporations. There has been a growth of entrepreneurs that has followed the lifting of import control and trading restrictions. There is no lack of talent or entrepreneurial spirit in South Africa. Re-engineering and outsourcing are proving stimuli to enterprise. New businesses are being set up to provide services to large corporations. The survival of large corporations may be based on their focusing on core activities and intelligent use of small businesses for non-core activities.

## **2-6 American Chamber of Commerce in South Africa**

Luanne Grant, Executive Director.

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Johannesburg

South Africa

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Ms. Grant said that the AmCham had over 250 members, 63% American, 14% South African with strong U.S. identity and the rest South African. U.S. firms in South Africa are overwhelmingly engaged in trade and services, not manufacturing. Their primary interest is the South African market, but the RSA is used as a base for operations and sales to southern Africa. The Chamber is very actively promoting business in southern Africa with a trade mission to

Zambia planned to take place within the next few weeks. In 1998 missions are contemplated for Zimbabwe, Uganda and, possibly, Angola.

The Amcham is registered with the SA Parliament and thus has direct access to committees and legislators to present its views on issues. A current issue of concern is procurement policy. The government's "Green Paper" lacks clarity and there is need to develop clear standards for disadvantaged business set asides and a definition of what qualifies as "black empowerment". Regarding small businesses there are very serious skills deficits.

Since the 1994 elections, the U.S. has been the largest foreign investor in South Africa. The major focus has been on computer and financial services. U.S. business in South Africa has suffered from excessive expectations. In essence, the U.S. promised but didn't deliver. Understanding and expectations on both sides were unrealistic. The Gore-Mbeki Bi-national Commission has played a useful role in bridging this gap in understanding and attitudes on both sides now reflect much more realism.

## **2-7 Black Management Forum**

Moses Maboi, Managing Director.  
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Mr. Maboi's first comment was that most blacks who would like to set up businesses are not educated in either business or international marketing. He, for example, left employment with a large manufacturer of military vehicles thinking that he would go into sub-contract manufacture. To date he has not found either the skills or the finance to do so. Fortunately his previous employer has recently engaged his services as a consultant to assist in marketing in southern Africa.

The Black Management Forum is focused on opportunities forthcoming from Affirmative Action and preferential procurement schemes. There are 200 members in Gauteng and 5,000 nationally. Their biggest need is training. Maboi considers the EMA an improvement over GEIS, which only kicked in after

a company had an export order, but admits that there has been limited use of EMA so far.

**2-8 National African Federated Chamber of Commerce & Industry (NAFCOC)**

Phillip Tekane, Membership Services Manager.

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NAFCOC was founded in 1969 as an independent business support organization focused mainly on the black business community. Its primary purpose is to promote the development of black business in South Africa. NAFCOC's members include business persons involved in transport, agriculture, merchandising, building and the informal sector. Total membership is approximately 100,000.

Phillip Tekane noted that NAFCOC had been invited by the Truth and Reconciliation Commission (TRC) to provide testimony on the apartheid government's systematic efforts to undermine black business development.

Tekane described access to finance as the most critical problem facing small business in South Africa. He noted that banks are still controlled by the same individuals from the apartheid era. He described the criteria for small business lending as very strict. The government's credit guarantee scheme has not alleviated this problem since the schemes rely on a commercial bank's review and assessment of a loan application prior to its approval by DTI. In summary, Tekane felt that the incentive schemes were not working. The regulatory framework for commercial lending was dictated by four major South African banks, not by the government.

**2-9 Johannesburg Chamber of Commerce and Industry**

Gordon Griffiths, Director, International Trade  
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Mr. Griffiths emphasized that chambers of commerce and industry in South Africa are private and self-sufficient. Members join voluntarily there being no legal requirement to do so. JCCI provides training in export and import. It has formed a "business link" with the Soweto Chamber of Commerce. It has developed a database describing the makeup and activities of all of its members and in conjunction with the Cape Town Chamber provides information to South African overseas diplomatic missions. Griffiths said that they could respond to requests from the field in a day or two whereas the DTI might take several weeks. The Chamber is also involved in "match making" - trying to develop joint ventures - and in trade missions.

The Chamber publishes an importers manual and an exporters manual, both highly detailed "how to" books as well as an "export-import" kit. Training is especially needed in quality control, manufacturing process and conscientiousness in manufacturing. An educational effort is needed for both whites and blacks. During the years of apartheid, the whites lived in a cocoon and the blacks were deliberately isolated. Now there is globalization, GATT and WTO. Society is still closed, there is fear about giving out information, no one wants to pay for information and to date there is no consolidated database for trade or business information in South Africa.

In recent years he said that the number one investor in South Africa had been the U.S., followed by Malaysia and the U.K. He did not think highly of the "butterfly" approach to export development saying that South Africans are afraid to compete, but that they can do so and that it is foolish to ignore their traditional, established markets.

**2-10 Foundation for African Business and Consumer Services (FABCOS)**

David Moshapalo, Executive Director  
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FABCOS promotes black business development by providing training, research skills, marketing skills and management services to its members. It is an active participant in organizations such as NEDLAC where it provides its input into the government policy debate on creating an enabling environment for black business development.

With regard to potential growth areas for SMME's, Moshapalo identified the tourism sector, the pharmaceutical sector, and the information technology sector. With regard to constraints to SMME development, Moshapalo considers access to finance to be a critical problem; the primary culprits are the commercial banks that essentially manage all SMME lending, including credit schemes provided by the government. Labor policies, particularly minimum wage laws, have also been problematic for small business since they impose wage rates that can be more easily managed by larger companies with a more stable financial base.

**2-11 National Clothing Federation**

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The United States is the single largest clothing export market for South Africa, approximately R170 million. Items include wool suits, jeans, and things cotton.

More than 60 percent of the clothing industry is small business, by nature the industry benefits the small businessman.

South Africa is currently trying to level the playing field on duties. Currently it is mainly the larger companies doing the exporting. Of companies with less than 200 employees, less than one percent are exporting.

Economies of scale in production is a problem, companies are making uneconomic runs of production.

Efforts to help must be market driven, not necessarily handed down by government. Larger companies generally follow standards, and there is some responsibility among the big companies.

Cape Town is more export oriented for the clothing industry, whereas Durban is more small business oriented. All clothing industry in the Johannesburg area is done in Soweto.

**2-12 Chamber of Commerce and Industry, Cape Town**  
Mr. Charl Adams, SMME division.

Mr. Adams began by questioning the definition of small and medium enterprises. The Chamber classifies its member companies only by number of employees with companies having 1 to 15 employees being small and those with 20 to 100 classified as medium. Using this definition, 80% of the Chamber's 4,000 members are small and medium enterprises. Admittedly this definition is flawed in the sense that a financial services boutique with a handful of employees would be a "small business" despite revenues in the millions of Rand. The Chamber would like to start an empowerment program directed at manufacturing. There are a number of companies that have or are starting empowerment programs and these could be coordinated and assisted by the Chamber.

Mr. Adams, who in 1993 wrote a book entitled "Affirmative Action in a Democratic South Africa" is distressed at the lack of interest on the part of those pursuing SMME development to even consider funding empowerment activities by the Chamber. He noted that in the 1940s there was a parallel empowerment program for Afrikaners whereby rural church ministers and farmers were placed on corporate boards of directors previously dominated by English South Africans. The present empowerment program unfortunately has taken on the appearance of an "us versus them" atmosphere with black against white.

**2-13 East London Industrial Zone Initiative**

Phillip Pratt, Executive Director.

This initiative serves to market the East London metropolitan area as a promising location for outsiders to investment in industrial activities which could compensate for the decline in the local automotive industry. The IDZ people have a R500,000 grant to undertake a study to identify prospective manufacturers. The community will have to rely on ISA and the newly created CIMEC for assistance in marketing these facilities. When queried, Pratt said that there were few in any industrial buildings on the market in East London, hence the need to build a new, attractive industrial park. Vacant buildings do exist in the former homelands as manufacturing operations established there did not survive the elimination of subsidy payments.

**2-14 Center for Investment and Marketing in the Eastern Cape (CIMEC)**

Eastern Cape Province, Alan Shaw, Acting Head, Operational Services  
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Quartzite Road  
East London  
South Africa  
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Mr. Shaw explained that CIMEC is a Section 21 company (not for profit) and thus a parastatal. It was incorporated in late 1996 but began operations in May 1997. It is funded with provincial money from the East Cape Development Agency. CIMEC views itself as a facilitator looking for strategic partners to invest in industrial projects. Its floor for projects is R3 million so technically it is not SMME oriented. Its operations fall into three areas:

Support services; information, research and interface with government

Financial services; assistance in accounting operations

Marketing services; investment promotion, partnership searches

CIMEC will be putting together a list of all possible funding sources for its activities, including banks and government agencies. It is expected to become financially self-sustaining by year three of its operations which poses a challenge. There is the danger of CIMEC not been able to maintain objectivity if it becomes dependent on one or a few companies or institutions for its funding.

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CIMEC will be participating in conferences, like the one scheduled November 7 in East London for foreign investors in an effort to develop business linkages.

**2-15 Regional Chamber of Commerce & Industry, Port Elizabeth**

Kevin Wakeford, Chief Executive Officer.

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Mr. Wakeford was pleased that the SA Cabinet had approved in principal the Coega Initiative, a deep water port and industrial development project intended for an area about 20 kilometers north of Port Elizabeth. He thought that financing for the port infrastructure could be secured privately or from overseas donors if supported by SA Government guarantees.

He was also optimistic about prospective exports from Port Elizabeth's automotive industry. He said that BMW was sourcing its right hand drive vehicles of one of its series from the PE plant. Right hand drive versions of vehicles destined largely to left hand drive markets would appear to a niche suitable for South African manufacture.

Wakeford believed that previously disadvantaged people could be assisted through tax policies. There should be a tax incentive for educating the children of employees. Tax incentives could be structured to reward affirmative stock equity programs. The big corporations need to move into channels supporting SMME development through incentives, i.e. monetary rewards.

**2-16 EuroChamber of Commerce in Southern Africa**

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Ms. Anahid Harrison  
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The EuroChamber represents European Community business interests in southern Africa. It has 1,700 members who supply both income and demand for services. The Eurochamber is also supported to some extent by the European Community, and it acts as a support organization for the EC Delegation in South Africa.

EuroChamber staff have been asked by the Delegation to develop projects to promote the empowerment of previously disadvantaged SMME's. Projects under consideration include an SMME financing program to be carried out in conjunction with the National Small Business Council. Consideration is also being given to strengthen chambers of commerce and industry in South Africa. The EuroChamber is also very interested in developing a program to analyze the likely impact on South Africa of the ongoing discussions of a free trade agreement with the EC and to develop public support for an agreement through seminars and workshops with business people.

As a further assist to SMME exporters, the EuroChamber expects to have available in mid- November for sale a guide book on exporting to Europe.

**2-17 National Business Initiative**

Henry J.J. Jeffreys and Brian Whittaker  
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NBI is a private business-based public-service organization with approximately 150 member companies. They are a collective business response to collective problems of South Africa.

Areas of work include education and training, urban economic development, and effective government. They produce public policy documents, institutional innovations, and policy discussion frameworks. They set up the Gauteng Education Department as well as "Business Against Crime."

The role of NBI centers around local economic development and it is not directly involved with small business development. They empower localities with skills and focus operations on local communities.

They are starting a 'strategic partners' program where they look for small businesses, partners and opportunities. Although there is much money out there for small businessmen, it's very hard to lend the money (from the lender's perspective) and it's very hard to have access to capital (from the small business perspective).

There is a problem in South Africa with limited vision. It takes people with vision to really make a difference. What can a low-skill, low-technology country do?

**2-18 Greater Soweto Chamber of Commerce**

Bongani Mphuthi  
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Soweto 1852  
27-11-936-1120 phone  
27-11-936-9738 fax

Mr. Mphuthi arranged a visit to a number of small, Soweto-based businesses to present a sampling of the problems and progress being made by previously disadvantaged entrepreneurs. Problems encountered by such small businesses illustrate that education is very important, but also how to submit a bid, how to reply to tenders, and other necessary business skills are required in order to compete.

## **CATEGORY 3: FOR PROFIT COMPANIES**

**3-1 Goldman, Judin & Werner**  
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Goldman, Judin & Werner is a South African law firm that represents a broad range of companies including large multinationals and small businesses. It has three directors, three staff attorneys, a conveyancer and a practicing consultant. It is linked to the Chicago law firm of McDermott, Will & Emery, an international law firm with 650 lawyers.

Mr. Judin provided a brief historical overview of the impact of apartheid on black business in South Africa. He described a deliberate strategy on the part of the apartheid regime to stifle small black business: the government wanted to ensure that state companies encountered minimal competition.

In the post-apartheid era, Judin noted that in theory, black small businesses have new opportunities. In practice, many of the apartheid era constraints remain. For example, access to capital and absence of business training and skills remain critical barriers to black business development.

Judin is not supportive of the idea of business "set asides" for small businesses. Instead, he believes that the focal points should be expanding credit access and improving training.

With regard to sectors with great export potential for small business, Judin mentioned African handicrafts, curios and fabrics.

**3-2 World Trade Display Centre**

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Wessels manages two organizations, which share space, and some functions. The World Trade Center of South Africa is affiliated with the WTC in New York and dozens more in a total of 36 countries. WTC activities are primarily in the training area, including seminars and special programs. The second, and much larger, organization is the World Trade Display Center and it is this organization which holds 23 trade shows annually in the hall near Johannesburg International Airport and runs an adjacent hotel. The Display company has 250 employees and is actively engaged in international trade promotion. It works with SMME's to get them involved in trade, both import and export, and acts as a super distributor for many. Wessels claimed that over 1,600 boxes a month go through the center to client companies. He also stated that through their efforts nine joint venture companies had been created. In this process, the center prepares feasibility studies and helps develop business plans to assist in financing new ventures in which they take equity stakes on occasion. It also publishes a business opportunities guide monthly available to its client companies.

Their current target is to develop a casino in space adjacent to the Center tied in with Global Resorts but with 50 percent black ownership. Together with the Casino will go a luxury hotel and an expanded trade show hall.

**3-3 Master Computers**

Shaheed Adonis, Owner  
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Master Computers distributes and services a wide range of computer software, accessories and equipment. It was formed seven years ago with a

capitalization of 2,000 Rand and last year had a turnover of R7.5 million. Rasheed expects this year's turnover to reach R12 million.

Shaheed spoke of the educational disadvantage of blacks. Expenditure ratios under the old regime were: whites 100; colored/Asians 5; blacks 1. Of the 5,500 schools in the Western Cape for blacks, colored and Asians only two percent have computers. Teacher/pupil ratios in these schools run 35 to one, while in white schools the ratio is twenty to one. Because of the job reservation schemes, qualified disadvantaged group members had no employment opportunities but to teach, resulting in many teachers without a real vocation to teach. The situation is changing now.

Shaheed heads a Black Information and Technology Forum in the Western Cape which was formed to provide each of these small businessmen group buying power, the volume discounts making each more competitive. There are problems, however, as several forum members have fallen behind in their payments. Shaheed estimates that of the whole South African Information Technology industry, only about 10 % of the participants are black. Shaheed would like to build a line of PCs but with the mother boards and some others made locally. He believes he has access to the skills and to the marketing, but he lacks capital.

### **3-4 KMMT Brey**

Haroon Lorgat, Managing Partner, Cape Town  
Ruth Benjamin-Swales, Director  
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KMMT Brey is a very successful "disadvantaged" chartered accounting firm with branches throughout the RSA. The Brey family is reputedly quite wealthy. The firm is multi-racial in its composition although key management appears to be Indian. The firm is interested in both export and SMME development and is currently participating with TSG in an industrial cluster study in the Western Cape. KMMT Brey is just entering this field of activity and does not have much of a track record as yet.

Lorgat confirmed that there is little American corporate presence in manufacturing in South Africa. His impression is that in general American companies have not matched rhetoric with performance and appear more interested in what they can take out of South Africa rather than what they can put in.

### **3-5 Summerpride Foods Limited**

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Summerpride Foods is a processor of pineapple, largely for export markets. Between plant employment and agricultural workers involved, Summerpride is responsible for 3,000 – 4,000 jobs. The company suffered a loss of 70% of its then export market in 1986 when the U.S. applied sanctions. It is currently operating at less than full capacity owing to a lack of supply of fruit. One of its marketing problems is that South Africa is classified by the EU and others as a “developed” country and thus falls outside the various import preference schemes, e.g. the Lome Convention. South Africa pineapple thus faces import duties of 17% ad valorem for entry into the EU while equivalent products from Lome countries enter duty free. The largest pineapple producing countries at present are Thailand and the Philippines, but South African fruit is competitive based on its quality and taste.

Chandler believes that if government were to solve the problem of land tenure, Summerpride would be in a position to create 5,000 new jobs. Pineapple production in the former homelands (Ciskei and Transkei) has collapsed as a result of the collapse in extension services and effective technical assistance. Commercial farmers do not need to own productive land, but could work out arrangements to lease land provided that the leases were for long enough periods and sufficiently stable to justify the necessary capital investment. The net result would be rental income to the landholders – a community or tribal holding – and substantial local job creation.

Summerpride believes that there is potential in diversified product development and is looking into production of canned pumpkin and processed gooseberries to name two. The overriding constraint is the land issue, but other constraints are the lack of a work ethic among employees and the high crime rate. Work at

the pineapple cannery is seasonal, but the union is organizing a work stoppage as part of its campaign to secure a guaranteed annual wage. The risk in driving up costs of production and inhibiting farm production is that South African commercial farmers will go off shore, for example, establishing pineapple plantations in Mozambique.

**3-6 Aerotech South Africa (pty.) Ltd.**

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Aerotech manufactures air conditioning systems for automobiles, principally German makes such as Volkswagen and Mercedes. It is a licensee of the Aeroquip Division of Trinova Corporation, a U.S. firm. High tech components like composite hoses and aluminum tubes are imported. Its history is a positive case study for South Africa. The firm was originally owned by Aeroquip, which had licensed the technology to its SA subsidiary. Licensing terms do limit both markets and clients. As a result of the boycott, Aeroquip sold its equity to GenTyre, a major South African company. In 1995, GenTyre unbundled this division, selling it to a management team headed by a woman executive, thus Aerotech South Africa. It is quite possible that Trinova (Aeroquip) will buy into Aerotech some time in the near future.

Confronted with globalization, declining import tariffs and more competition, Aerotech management chose to emphasize exports with the result that currently exports comprise 60% of sales. The overseas markets are the European operations of their South African clients, but selected parts or assembly niches where Aerotech is competitive. Part of their competitiveness stems from the relatively low material content as compared to labor content. Labor costs are much lower than German, for example, which allows them to compete against German suppliers. Aerotech believes that its export business will continue to grow and that it will do well in the new more competitive environment.

The company's policy is to grow people: 3% of its payroll goes to training. If disadvantaged is defined as not being a white male, then 80% of the employees qualify. A profit sharing scheme generates bonus payments to employees. In the Isondo area Murray and Roberts has chosen to alleviate a problem of late arrivals of employees through a housing scheme. Since its employees traveled

long distances via erratic transport, difficulties in getting to work were endemic. Murray and Roberts has developed a housing village nearby at which it sells houses at reasonable rates to employees. Aerotech would like to add on a section to this village for its own employees. Mr. Murray believes that more such housing programs are needed along with schools and would like to see corporate support for developing a technical college for the area.

### **3-7 Caroza Rose Farm**

Mr. Peter Davidson, President  
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Caroza Rose Farm is small company (approximately 42 employees) that exports cut flowers to the European market. It is currently in its second year of operations. The International Finance Corporation (IFC) of the World Bank financed Caroza during its start up. Because the IFC loan exceeded the Reserve Bank of South Africa's statutory credit limit for a company of Caroza's size, the interest rate was higher, thereby making the loan much more expensive for Caroza. The most serious constraint to Caroza's growth is the lack of access to credit.

Davidson has also begun a mining operation (Cabenza Mining) which is scheduled to begin production in February of 1998. The biggest constraint facing his new business is the dominant market presence of the large mining companies that have essentially shut out the smaller companies.

### **3-8 Afro Kleen**

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South Africa  
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Victor Mhkize is a former employer of Unilever Corporation who currently runs a company that manufactures household detergents. He founded his company with four friends after Unilever downsized one of its Industrial Divisions. The

biggest problem they faced was obtaining a loan. They did not meet the strict collateral requirements of commercial banks. They eventually obtained a loan from Standard Bank. Once they began operations, they soon discovered that their working capital was insufficient to meet their business needs. They returned to their lenders and asked them for additional loan; however, because they did not have assets, their lenders balked. Afro Kleen has plenty of business, but they cannot finance their sales.

Mkhize called government credit guarantee schemes "a scam." He believes that the standards applied by commercial banks (which manage government credit guarantee programs) are too stringent. He believes that banks should amend their lending guidelines to focus more on the "growth potential" of a small business.

Mkhize has exported only to the Seychelles. He has not focused his attention much on exporting.

### **3-9 Seven Continents**

Mrs. Sally Marengo, Managing Director  
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Marengo runs a firm in Germiston South that manufactures bathroom fixtures. She employs 12 people. The biggest problem she faces is government red tape. She complains that DTI provides no support or assistance in navigating through national standards compliance requirements. Because she runs a small business that requires her complete attention, she does not have time to manage the onerous standards compliance paperwork requirements. She also noted that she has no knowledge of DTI programs that might be able to assist her.

In spite of these difficulties, she has received considerable support from Canadian NGO's and the Blue Project. The Blue Project is helping Marengo finance a consultant to assist her in navigating through the maze of standards requirements. The Canadian Alliance for Business in South Africa is assisting

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her with marketing. They are also assisting Marengo in developing a cost accounting system.

Marengo has exported her products to Zimbabwe, Zambia and Mozambique. She has a sales representative in Zimbabwe.

Marengo also mentioned that labor laws, particularly the minimum wage requirement, place her in a difficult position financially.

### **3-10 Anglo American Corporation**

Amanbea Adjepong-Boateng  
Joel Mokgohlwa, SMME Initiative  
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Their SMME unit was formed in 1989. 'Light It' is the name of Anglo's program. The program takes equity for Anglo in SMME companies and ventures. They do not give loans, but will introduce the enterprises to banks. They provide 'hand-holding' services to clients, and clients benefit from association with Anglo.

They do not charge fees for their services which really helps growing SMME's. Light It stakes are charged management fees, and Anglo looks to withdraw over time from Light It companies.

Reef Foods Services was biggest Light It enterprise, then Anglo sold its stake and the owners sold out to a bigger Black-owned catering firm.

Access to finance is still a major problem and an impediment to growth. Anglo has community organizations that handle some types of SMME or loan information. Anglo has set up many SMME's to do repairs, reconditioning and refurbishing equipment from its mining operations. Anglo has no formal relationships with NEDLAC or other like organizations.

There is an Oxford University study on Anglo-American's SMME development program.

Skills transfer is of utmost importance, Black-White partnerships are most important for this type of development.

There is not much harmony between national program and policy and what Anglo does concerning SMME development and procurement. In fact, they disagree with national policy. SMME's need help with skills, including helping SMME's enter markets, write business plans. Skills are most important, finance secondary.

**3-11 SASOL Development Trust**

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SASOL began its SMME initiatives in the 1990s. It works closely with the Small Business Project (SBP) of the Private Sector Initiative. SASOL has worked extensively with SMME's in Secunda. The Highveld Ridge Business Development Center in Secunda plays an invaluable role for small businesses by providing, information, training and business counseling to small-scale entrepreneurs. During 1996, 156 entrepreneurs were trained and approximately 540 business counseling and training sessions were conducted.

SASOL's affirmative procurement program has resulted in contracts worth R27.5 million for small businesses.

SASOL's interactions with the DTI have not been very positive. Von Kotelholdt describes Khula and Ntsika as being fairly ineffectual in developing the SMME sector. Both organizations lack a clear action plan or strategy.

**3-12 Kenny's Brick 'n Tile**

Kenny Siphayi, Owner  
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Pimville 1808  
South Africa  
27-11-933-1000 phone  
27-11-933-1003 fax

Transfer of skills is the biggest problem facing development of SMME's. Kenny was never actually trained in brick making but he is doing okay. What is

necessary is also more pairing up of big and small businesses together for skills and technology transfer.

Other than skills transfer another big issue is lack of financial back-up to SMME's. Apparently the Nando's franchising agreement is a very good one, in that the franchise helps out the previously disadvantaged owners in starting up, and confronting problems that arise along the way.

Previously disadvantaged businesses are getting government contracts for the first time according to Kenny.

**3-13 Mangalani Service Station**

Soweto, Johannesburg

South Africa

Justice Nkawe, Owner

The manpower is here but the skills are not. Skills are limited and 85-90 percent of Blacks have no skills.

Customer service is also not here yet, as well as education which is very much lacking.

**3-14 Rancaps**

Chetan Hira. Owner

PO Box 615

Lawley 1824

South Africa

27-11-857-1433 phone

27-11-857-1471 fax

Labor costs are too high and interest rates are too high. Other African markets do not have as high standards for quality as in South Africa. Problems include high interest rates, labor in general, and productivity.

This is the first plant in Africa with as advanced a capsule-making machine as the one in the Rancaps facility. The machinery was manufactured in Calcutta. Everything was perfectly set up and planned for the plant but the South African government did not give visas to the Indian consultants to install and initiate the running of the machine. The South African government must be more supportive. Cheaper finance is needed.

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SBDC doesn't always require collateral, but will then want a percentage in return. They will then try and add value through their equity stake, management advice, technology, etc. More linking needs to be done between businesses and SBDC/DTI-type organizations. Currently there is definitely a lack of communication.

**3-15 Uncle Joe's Shoes**

Tami Vezi, Owner  
Unit Number 10  
Ntuzuma E Factory Units  
Lot Number E1082  
Ntuzuma  
Durban

The location of the production unit is in Ntuzuma township Durban KZN. Tami Vezi is a tenant of the Kwazulu Finance Corporation, and pays R260 in rent monthly for approximately 50 square meters of factory space. The capacity of this unit is 20 pairs of shoes per month, which are mostly produced by hand. There is a serious lack of equipment, finance and management skills. Besides the owner an additional worker is employed as the need arises (depending on demand).

In August 1996 the owner approached Scotts Shoes a big shoe retailer, which has branches in various cities in South Africa. After inspecting his samples, they indicated a strong interest in two pairs and offered to enter into a one year contract with Joe's Shoes. One of the requirements was that Joe Shoes supply a minimum of 2,400 pairs of shoes per week.

Tami Vezi approached the Kwa-Zulu Natal Finance Corporation to finance a machine costing R110 000, which he believed would have been adequate to cope with the demands of the contract. The loan application was turned down despite his having supplied KFC with letters of intent from Scotts Shoes.

The deal failed and the owner of Joe's Shoes had no capacity/access to network with other bigger producers in order to secure at least a share of the contract.

Tami Vezi's market is limited to the neighborhood in which he lives and the passing trade where he works. Most of his production is based on orders

requiring custom made finishes for individual tastes. He also sells his products at the flea markets.

**3-16 Gone Rural Safari Curios**

Oscar Ngcobo, Owner

54 Marine View

2<sup>nd</sup> Brew Street

Durban 4001

South Africa

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Oscar, a designer of African jewelry, organizes various groups of women in rural KwaZulu-Natal province and KwaDabale to produce African curios and craft items, which are sold at flea markets in Durban and elsewhere. In 1993 he registered as an exporter with the DTI, (The first black exporter) and faced the same constraints as other SMMEs.

However, his background is more fortunate than other black entrepreneurs, in that, he had accumulated valuable business experience while working at Standard Bank. Through this experience he acquired formal education in marketing and other business disciplines.

In 1993 he embarked on his own self financed trade mission to the US, during his annual leave period at Standard Bank. His objective on the trip was not to clinch orders but to create an awareness for his product, being fully aware of his capacity constraints. And also to establish which kind of product would sell in the export markets. This led him to modify existing products to make them more attractive to foreign demand.

In 1995 he received his first export order and in that same year was awarded the exporter of the year award by Coopers and Lybrand. His export deals were financed by Standard Bank that required collateral besides the L.C.'s. Gone Rural has expanded its business over the period 1995 - 1997.

Some supply issues:

sustainable volumes (labor intensive industry)

lack of finance

difficulty in determining the right product

reliability

quality and price / vis-a-vis competition from the Far East  
most difficulties revolve around lack of finance

The players in the industry:

Oscar is the only black exporter in the industry. There are many white operators who are exploiting the situation. Whites have access to the markets and the blacks have the skills. Workers in the industry are mostly women. The white operators have the capacity to import raw materials cheaply making them more competitive in the export markets.

What is needed :

access to credit  
training in business skills  
enhancement of artistic skills is recommended

### **3-17 Beacon Sweets**

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Jacobs 4026  
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27-31-487-583 fax

Beacon Sweets is a large privately owned, sweet and chocolate manufacturer (a South African Company). It exports to countries world wide, the USA, UK, Europe, Far East and Africa. The product quality of South African sweet manufacturers are of the best in the world. South Africa's share in the world markets is less than 1% which leaves much room for improvement.

Beacon Sweets, although still operating profitably, does experience pressure since the removal of GEIS. The EMIA benefits small exporters only. Since the firm had a wide range of products selling in export markets, the removal of GEIS affected their pricing structure and rendered a number of products uncompetitive. Beacon underwent rationalization, to produce more units per product (cutting costs per unit), and to abandon the less popular export lines. Prior to rationalization the different standards set by different countries implied different processing and packaging for the same product. Many such products were identified as uneconomic and abandoned, freeing up capacity for longer production runs, resulting in lower unit costs.

What the industry needs:

- Increased automation - essential for competitiveness to avoid marketing products at unstable /erratic prices
- Contain overhead costs
- Labor rates may be justified but the manufacturing sector needs more productivity
- Scope for SMME exports
- Lower overheads
- Greater labor intensity
- Create an impact on domestic market in the cheaper product lines
- Create room for export of cheaper product lines.
- Possibility of linkages with SMME's

Beacon has high capacity and would not be keen to outsource production. Beacon would be keen to purchase inputs from SMME's who can deliver the right product at the right price. Peanuts is one such input. Beacon is open to enter into various arrangements with SMME's as long as there are mutual benefits.

Export transactions: no real red tape difficulties. The African market displays increased reliability, and trade, Beacon trades are cash up front.

The actual mechanics of exporting would be problematic for SMME's.

**3-18 Microfinish Manufacturing**

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This firm produces the following automotive components for the domestic and export markets:

- Valve Guides
- Valve Seat Inserts

Sale to the local market is +/- 50% of production and 50% is exported to the UK and European markets. The firm has a work force of 80 employees, and is categorized as a medium sized business.

The firm's export sales are growing faster than the domestic sales. It is establishing a good reputation of reliability, quality, flexibility of production and relatively low prices for the European market. By the end of 1997 the export sales should account for about 60% of total sales. The firm has only one competitor, in Cape Town.

The technology demands for its products are stringent and rather capital intensive. There is not much scope for SMME development in this sub-sector as there may be in the non-precision areas such as interior components / exhaust systems/ brackets.

### **3-19 Maziya's Engineering**

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This firm is involved in fairly high tech engineering and does work mainly for petrochemical companies. Maziya is strong in the pipe and tubing sub - sector. Technicians in the firm are constantly engaged in innovative research and design for new products, and to date the firm has two international patents. One for an automotive component and the other for a component in the plumbing system.

#### **Export experience:**

During 1995 - 1996 Maziya's entered into a joint venture with Genrec, a white owned engineering firm, to produce / build an air purification plant, to be exported to China. Genrec managed the transaction and Maziya's Engineering built the plant from start to finish. The Chinese paid Genrec who in turn paid Maziya's their share of the deal.

Clearly Maziya's has the capacity to produce on the technical side of the business but lacks access to management skills, such as marketing and networking. The firm also lacks access to finance.

Maziya believes that the industry being white dominated (he is the only black player in KZN) is not allowing him much scope to network and win jobs.

Maziya is expecting to supply components for the coming Mozul project in Mozambique. This is the only foreign project in the pipeline, but will be of a long term nature.

Maziya's Engineering is negotiating a new venture to produce Jono Hydraulic Shears under a license agreement. This is equipment used to cut components out of metal e.g. auto-body parts for buses and other vehicles. There is export potential for these products in markets permitted by the agreement.

**3-20 Megacor (Pty) Ltd**

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Megacor is a manufacturer and exporter of knocked down pine furniture now in its eleventh year of successful trading. Formed in 1986 with the objective to manufacture coffins for the Transkei market, the firm began manufacturing furniture in February 1988. The firm had already begun a local furniture sales drive as well as exporting two 20 ton containers / month. Management soon realized that the export market was expanding faster than the local market.

Today Megacor exports an average of ten containers / month. The firm currently employs 100 people and occupies 4,000 square metres of factory space.

Megacor currently exports over 90% of its output to the following countries:

France, Belgium, Mayotte, Reunion, Taiwan, United Kingdom, Gibraltar, United Arab Emirates, Bahrain, Guadeloupe, Martinique, New Caledonia and Australia.

Exclusive agencies have been established in these countries to market Megacor products.

The current range comprises 40 items. All products are crafted from commercially grown local pine, bedroom, lounge, dining room and occasional furnishings.

Products are exhibited internationally every year where overseas buyers and traders have consistently responded positively to the design, concept, and presentation. The competition comes from countries like Brazil, Chile, Spain and will increase from Eastern European countries.

Megacor's advantages are as follows:

Quality and SABS/ ISO 9002. (This increasingly a requirement for goods imported into the EU.)

Reliability

Consistency

Flexibility

Megacor is in the process of outsourcing its production to smaller firms. Currently 35% of output is out-sourced. By 1998 this should rise to 70% and 100% by the end of 1999.

The supply of timber is controlled by Sappi and Mondi who export the best grades to which no value has been added. Manufacturers are faced by regular timber price increases of +/- (15 - 35)% per year. This makes it difficult to maintain stable export prices.

### **3-21 Duys Engineering Group**

Henk Duys, Managing Director  
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27-31-701-6297 fax

This firm is an established, well managed heavy, structural and mechanical engineering company. It handles both large and small engineering jobs. The firm has equipment that enables it to do precision cutting, turning, machining, forming, welding, bending, milling, grit blasting, lifting, coating, and handling of a variety of metals. The firm is capable to take on work utilizing aluminum as well as stainless, hard wearing and heat resistant steels.

The industries it serves include: sugar mills, chemicals, primary metal producers, timber, coal handling, petro-chemical, power generation, food, grain handling, agriculture, paper and pulp, mining and textiles.

The firm is currently planning to enter the export markets. It is in the process of searching for possible niche markets in the steel industry. Duys is well experienced in export markets. He does enjoy certain technical advantages, specifically in the sugar industry or similar products for processing. Durban is the center of sugar technology. Potential countries for these products would be in Latin America, Southern Africa and Cuba.

The firm regularly manufactures machines exported to the UK and Germany. It is currently producing machines for a German company to test brake linings. Duys has a competitive advantage in that it has gained rights to use software control systems from an English Company giving it an edge in high level technology at low costs.

There is potential for SMME development in the industry. Duys is considering outsourcing production that has low capital intensity requirements to smaller enterprises. The firm has already engaged in outsourcing of its output to smaller firms capable of delivery. According to the management there is vast potential for many niche areas in housing, security and automotive components for low skilled output.

### **3-22 Ntingwe Tea Estate**

Ryle Perera General Manager  
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This is a KFC owned and funded tea estate. The operation has an export orientation only and the highest grade of tea is produced here. The output is exported mainly to London with some to Europe and the USA. Ryle Perera has been brought in from Sri Lanka to manage the development of the estate.

While the development process is continuing KFC is busy formulating the correct model for future unbundling of the developed estate. Currently only 169 hectares is under cultivation producing 240 tons of tea per annum. The plan is to maximize production by the year 2014, when 600 hectares should be under cultivation yielding a projected 1,800 tons.

The success of this project will determine the growth of tea export crops in other areas of KZN where SMME's would be important players.

This sector is highly labor intensive as it takes 2 to 3 persons to work a hectare of land (family involvement optional).

Ntingwe Tea Estate claims it is the only producer in the world selling under its own name brand.

### **3-23 Columbus Steel**

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This stainless steel company, the biggest primary and semi fabricator of stainless steel in South Africa, recently invested 1bn US\$ in plant and equipment making Columbus the 6<sup>th</sup> largest in the world. At full capacity the plant will be capable of producing 600,000 tons of output per annum of which +/- 90% will be exported. Therefore there is massive potential for downstream development with an export focus.

The current demand for stainless steel globally is approximately 15 million tons per year, whereas the demand for carbon steel is close to 800,000 million tons per year. The investment made by Columbus therefore has a significant impact on the world stainless steel market that is growing relatively faster than the carbon steel market. From 1950 - 1993 world stainless steel consumption increased at more than twice the rate of industrial production.

Columbus will through its increased investments be able to produce at lower costs per unit and supply customers at lower prices making South African fabricating firms more globally competitive. South Africa's stainless steel industry has displayed strong competitive advantages in the manufacture and export of tank containers and automotive products, especially catalytic converters, tubes and pipes.

Products the South African industry can focus on for exports:

- pipes
- sinks
- holloware
- cutlery
- catalytic converters/ exhausts
- flanges
- tubes
- pipe fittings
- beer kegs
- metal polishing
- blanks
- plate heat exchangers
- slat band chains

Columbus is confident that expansion into these industries for exports will enhance South Africa's employment absorption capacity. For example, a well developed cutlery industry that includes labor intensive polishing activities could employ 50,000 people.

**3-24 T&N Holdings**

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T&N holdings, owned by TNN PLC, a UK based company which has subsidiaries in most of the countries with automotive industries. It is an auto components manufacturer and supplies major automotive assemblers. Internationally the company had sales of 3.6 billion US\$.

TNN South Africa finds that globalization is forcing the company to focus on exports for survival/ growth. In SA it makes engine parts, friction brakes and heat transfer equipment.

Government policy favors producers of smaller vehicles which results in model proliferation, causing increased competition at the bottom end of the market. TNN's lower end products sold to OEMs represent about 25% of production with exports taking another 20+% . The balance of production is geared for exports.

TNN believes that government policies are not promoting local content in the automobile industry but instead making it easy for assemblers to import. With model proliferation they experience an increase in capital expenditure and a decrease in market growth per unit.

The tariff on any imported component can be offset by duty free allowances of 27% and 30% on smaller vehicles. Even if local companies are competitive assemblers, they prefer to buy from others with whom their parent companies have entered into contracts easing the problems/ obstacles of distribution.

TNN's reduction in OEM sales over an 18 month period (48% to 22%) to Volkswagen, Delta, BMW and Nissan was caused by more completely assembled vehicles being imported.

TNN offset its difficulties by focusing on exports. In the past six years its exports have increased 30% annually. Even though the MIDP is not pressuring exports indirectly through OEMs, TNN has marketed and is successfully exporting friction brakes and engine parts to the Mercedes and Ford operations overseas. Half of TNN's exports are heat transfer equipment for the aftermarket, mainly replacement parts for BMW and Volkswagen.

### **3-25 Hulett Aluminum**

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Hulett is a semi-finished fabricator in the aluminum value added chain. Hulett produces the raw materials for the final fabricators in the form of extrusions (mainly for construction products) and rolled aluminum (mainly for cans / packaging products). Hulett supplies local producers who export at export parity prices and others at import parity prices.

Hulett has recently invested in plant to upgrade their rolling mill to increase production from 50,000 to 150,000 tons. This plant runs for 365 days per year and 24 hours per day. Rolling is a hi-tech capital intensive segment of the industry, and Hulett was driven to engage in this investment to improve quality and to match international standards for themselves and customers. The investment in rolling equipment is geared to increasing the industry's exports of rolled products since these are cheaper to transport than extruded products that take up more space.

Unfortunately, the recycling sub-sector of this industry does not receive sufficient scrap aluminum due to South Africa's low consumption of aluminum products. For, it is cheaper (takes 50 times less energy) to recycle scrap aluminum than to smelter mined bauxite. And owing to its lower melting point it's cheaper to recycle than steel.

There are currently about 60 rolled products in the world market which are not easily available and represent an opportunity to supply the local fabricators for export. It also represents an opportunity for local firms to generate new products.

Hulett is aiming to become one of the three lowest cost producers in the world within three to five years.

Key aluminum industries for exports:

- beverage cans ( South Africa has the competitive capability of producing Bevcan Reem)

- exporting of can ends has huge potential. High value density in can ends. Cans are the biggest users of aluminum - the USA uses 1 million tons per year.

- automotive industry is increasing its use of aluminum, mainly in order to reduce weight and increase fuel efficiency. Aluminum is one third the weight of steel. In 1986 the average car produced in the USA contained 3.5 pounds of aluminum. In 1996 the weight content increased to 193 pounds.

**3-26 Impressions Shoe Manufacturers**

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SBDC Factory Number 2  
Pietermaritzburg  
Cumberwood 3207  
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27-331-728-23 fax

Impressions is a small footwear firm employing 20 people. The firm has been operating for seven years and has managed to gain and maintain a reasonable market share in South Africa. About 75 % of South Africa's footwear is produced in KwaZulu Natal which makes this province a principal source of footwear for the country.

Impressions believe that the footwear industry is controlled by local suppliers of leather who sell the best quality to selected customers, mainly larger more established businesses. This forces the smaller firms to import their raw materials in order to produce products of acceptable standard.

It is difficult for the small producers to sell their products to the big retail stores e.g. Woolworths, who set/demand that producers establish certain standards (quite unrelated to product quality/price), such as floor space and machine/equipment age. It is felt that the small producers do match the quality standards demanded by Woolworths and other stores. Furthermore there appears to be upstream control where the major tanneries, footwear producers and retail stores have established business arrangements.

Impressions is a producer for the medium quality market and has recently invested in an export marketing drive. The firm employed an experienced marketing agent to market the product in the USA. There were positive responses to these efforts and Impressions is expecting to receive its first export order before the end of 1997. However there are strong uncertainties about whether the tanneries will support/ supply impressions with leather to process such orders. Impressions will take up this matter with the Department of Economic Affairs, KwaZulu-Natal.

## **CATEGORY 4: NON-GOVERNMENTAL ORGANIZATIONS, PARASTATALS, NOT FOR PROFIT ASSOCIATIONS**

### **4-1 BLUE Project (National Industrial Chamber)**

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The BLUE project is a jointly funded venture by USAID and the National Industrial Chamber that promotes linkages between small and large businesses. It also works in the area of training/education. With respect to its training activities, the BLUE project develops training modules on business skills development. In addition, it organizes modules on how small businesses can learn the about the tendering process.

BLUE also assists entrepreneurs in reviewing ISO 9000 requirements for manufacturing. They will provide 50 percent of the training costs and the manufacturer will provide the balance. Sally Marengo of Seven Continents has received such assistance from BLUE.

To date, the BLUE project has organized 9 training modules and 110 training sessions that have reached 2,847 entrepreneurs. There are 92 corporations participating in its linkage program and 283 contracts have been concluded with a value of R33 million.

### **4-2 Sam Montsi & Associates**

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Fertice Miller III, FMDAP-Blue Project Officer.  
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Godfrey Afrika is responsible for assisting in the administration of the Anglo-Vaal SMME program. Anglo-Vaal is one of the premier corporations in South

Africa with operations in mining, construction, textiles, cosmetics, fishing, glass and paper. There is a strong commitment by Anglo-Vaal top management to procurement from disadvantaged firms. Owing to this commitment which is reinforced on a continuing basis, subsidiary units are beginning to outsource such activities as transport, construction, engineering services, electrical repairs and installation and supplies of some materials. There has not yet been any measurable outsourcing of manufactures but this is expected to be an outgrowth of the program.

Fertice Miller is working with 10 corporations in an attempt to develop partnerships with disadvantaged SMME's. They have been developing a data base of SMME's to use in the search and have now 188 on file. Miller believes that this form of partnership can work if there are financial incentives to compensate for the additional training and oversight required to qualify the SMME as a partner. Miller expects a visit shortly from an American company interested in building boats for export and which appears willing to go into partnership with a disadvantaged South African firm.

#### **4-3 South African Foreign Trade Organization (SAFTO)**

Johan Scheepers, Chief Executive, Ann Moore, General Manager  
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Founded in 1963, SAFTO is now a financially self-sufficient subsidiary of the Industrial Development Corporation. As such it is a Section 21 company, i.e. a private sector organization, albeit with some ties to the Department of Trade and Industry (DTI). SAFTO engages in three areas of activity: as a source of information, e.g. overseas market data; as a consultant to companies or industries interested in exporting; and the provision of training in how to export. SAFTO has a paying client base of between 700 and 800 companies. Some 65% of its clients are small and medium enterprises, that is, companies with annual revenues below 12 million Rand (US\$2.6 MM). Since SAFTO is self-sufficient, it must charge fees for its services, which effectively eliminates access to its services for those small companies that can't afford to pay. As part of its need to reduce costs to match income, SAFTO dropped its small business development program.

In the judgment of SAFTO's key executives, companies need an established base in the domestic market before they can enter export markets. SAFTO is concerned with manufactured products. Among those areas they consider promising would include high tech items. They have also noted a growing foreign market for South African services such as consulting engineering and architectural services. South African exporters of manufactures are handicapped by high internal transport and service costs. Some black-owned companies have entered export markets in such product areas as skin care cosmetics, clothing and handicrafts. A union-owned company has been successful in clothing.

Mechanisms suggested for expanded access of minority-owned small businesses to export markets included trading houses, cooperatives, "piggy-back" manufacturing and large corporate procurement outreach programs. There are said to be hundreds of trading houses looking for new products. The British Government is funding one such trading house that has been successful in developing and exporting handicrafts from self-employed artisans. "Piggy-back" refers to small companies being involved in supplying goods and services to major companies which in turn contribute to the latter's export operations. Cooperatives, especially in such fields as clothing, decorative items and agriculture, may prove an important mechanism to provide the economies of scale to transform very small operations into export capable businesses. Regarding major corporate small business outreach programs, Anglo-American/DeBeers and SASOL have been very proactive. SASOL is setting up a small business industrial park in Mpumalanga to foster development of small scale manufactures.

Standard Bank is active in export development, but SAFTO at present leads the country in terms of export-oriented training. Universities and technicons in South Africa historically have not been active in this field. Non-governmental Organizations (NGO's) are becoming active in promoting emerging businesses.

**4-4 BEES Consulting Group**

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Director, Kevin Kane  
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In discussing the role of microenterprise in exports, it was brought out that in the informal business sector there is significant unrecorded cross border trade generally carried out by individuals who cross from Lesotho, for example, into the Free State with tradable goods that they sell, buying other goods to take back. Other cross border trading areas include the Swaziland-Kwa-Zulu Natal border. Gavin Masloff of the University of Durban's Economic Research Institute has done a study on this subject.

Other involvement of small businesses in export is through trading houses that do the marketing, respond to opportunities and buy the furniture, clothing or handicraft items from a number of small producers.

**4-5 Independent Business Enrichment Center (IBEC)**

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The critical areas for SMME development is marketing and training. Private corporations must play a larger role in assisting in their development.

The organization is getting involved in many new SMME's, formerly disadvantaged, project ventures. IBEC utilizes methodology developed in Germany to conduct entrepreneurial training. These three week courses are considered successful mechanisms to develop attitudinal changes favoring entrepreneurial ventures. IBEC also supplies hands on assistance to SMME's in developing business plans and the documentation needed to apply for financial assistance.

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IBEC has not advertised its services and it prefers to keep a low profile so that there are not too many potential enterprises vying for its services. While supported by Khula in its financing activities, Naidoo said that Khula doesn't know how to market. And it is not set up to do it. Staff inadequacies are a problem: "if you pay peanuts you get monkeys". Khula does not lend in amounts of less than R300,000. IBEC's portfolio runs 32% of its accounts in the under R6,000 range.

#### **4-6 IBEC Finance , Port Elizabeth**

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Heynes said that IBEC was in a transitional period. It was dropping its microenterprise division, that is, the R1-6,000 loan sector of the market, to concentrate on the R20,000 to R500,000, small business sector. The administrative oversight costs and low payback records meant that the micro lending was dragging down performance of IBEC as a whole. Loan funds available to IBEC from Khula carry an interest rate of 15%, which means that IBEC has to generate sufficient operating profits to service its loans and cover its costs of operations.

IBEC uses a sliding scale to determine the degree of securitization for its loans. Easier and longer terms are offered to entrepreneurs whose own capital contribution is a significant part of the investment. Heynes believes that the "developmental" mind set needs market discipline. If Khula insists that a portion of IBEC's loan portfolio go to the micro sector, IBEC will be forced to find ways of increasing its income from the small and medium sectors to cover its expected losses from micro lending.

**4-7 Credit Guarantee Corporation**

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Credit Guarantee is the largest professional credit insurer in South Africa. It is owned by a consortium of banks and insurance companies in South Africa.

Mr. Van Ede noted that traditionally, export credit insurance has focused on big conglomerates, not SMME's. However, the Department of Trade and Industry and Credit Guarantee have recently examined the development of the SMME sector in other countries to determine the most important lessons and to apply them to the South African environment. South Korea was used as a model to develop a short-term export finance guarantee scheme. In the model developed for South Africa, Credit Guarantee acts as an agent for DTI by providing commercial banks with a performance guarantee. This enables a bank to finance – against prime – 90 percent of the costs an exporter incurs in preparing an order for shipment.

There are currently 75 guarantees under this scheme. The total value is R50 million. Initially, white businesses were the primary beneficiaries of the scheme but an increasing number of black businesses are obtaining these guarantees.

One of the key constraints facing small business development is the absence of an entity that can coordinate SMME policy. DTI, according to Van Ede, does not fulfill that role.

Van Ede noted that small businesses find it difficult to export because they have no history of exporting and they have no assets.

**4-8 International Council for Small Business**

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SBDC is a for profit corporation formed jointly by the Government (DTI) and an array of private corporations including virtually all the major companies in South Africa. Its original task was to promote black businesses but it found it easier to deal with white-owned small and medium enterprises. With the change of government in 1994, it was decided that SBDC was not an effective mechanism to promote the smaller and micro enterprises and DTI withdrew much of its investment in SBDC and used this capital to fund Ntsika and Khula. SBDC is now 80% owned by private companies and 20% by DTI. It provides business support, capital and business premises to small and medium businesses. It has been operating for 16.5 years.

The maximum financial support provided to small business is R3-5 million per year. In addition, SBDC assumes equity in many deals. There are approximately 1,000 deals per year. SBDC has an excellent database of approximately 8,000 companies from which it solicits a broad range of joint venture and investment possibilities. With respect to its client base, the following sectors are represented in descending order: automotive components; motels (hotel, lodging); food processing; chemicals (rubber, plastics); wood (paper and printing); and textiles.

SBDC is now very committed to development of previously disadvantaged business groups, but it is focused on small to medium sized firms, a group which is still predominantly white. One of the mechanisms that it believes will prove effective in transferring skills and management expertise to small disadvantaged firms is the joint venture. A number of these have been developed between larger South African firms and disadvantaged small companies as the larger companies are motivated by the new procurement set asides. SBDC would like to find foreign firms for partnerships. SBDC is prepared to provide much of the administrative and oversight support needed by such joint ventures to assure that the terms and conditions of the agreement are met. The organization has five operational centers and its activities are carried out nationwide.

According to Botes, the primary problem that restricts black business development is the lack of skills. The average approval rate for black loan applicants is 31 percent. Nevertheless more and more black and other disadvantaged individuals are entering into manufacturing ventures.

#### **4-9 Triple Trust Organization**

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TTO is an institution that has over the past ten years dedicated itself to microenterprise development. It concentrates on community development, especially rural communities. It does a lot of training, both in general skills and in technical ones, such as sewing. It values its independence and at present derives only about 25% of its funds from governmental donors. Other sources include private foundations and its own operations. TTO has recently moved beyond its Western Cape base to establish a series of community development programs in rural areas of the Eastern Cape Province.

TTO has moved into exports of products produced by small farmers and microenterprises. Its related organization, Africa Trade, has engaged in trade, including export of handicrafts. A second firm, Just Exchange, following the principle of paying a "fair" price to the producer for its goods has progressed beyond crafts into the sale and export of wine vinegars, mustards and is developing its own blend of coffee for export. These two organizations have sponsored the creation of a new, for profit, trading company to further commercialize products of SMME's. One of TTO's services to SMME's has been the creation of a business information centre which will serve as a "First Stop" for would be entrepreneurs where they can get the information they need to start up and maintain a small business.

**4-10 University of Port Elizabeth, Small Business Unit**

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This small business unit was formed in 1982 and is one of seven university-affiliated centers in the RSA. One of the seven, the one in the Northwest Province, is doing quite well, but the other six remain small and under-funded. These units previously were supported by DTI but they have been refused accreditation by Ntsika so are no longer recipients of central government funding. From 1982 – 1989 the Unit focused on firms in the formal economy, working with small and medium enterprises. From 1989 to 1994 it shifted emphasis to a mix between small and informal enterprises. The small business units are engaged in training, technical assistance, help in gaining access to financing and “after care”. The PE unit has long experience in training but specializes in “after care”, that is trying to keep the small entrepreneur afloat after start-up.

Ntsika has set up Local Business Service Centers to provide similar services but to date they have delivered little. There is a lack of clarity in its programs and policies. Ntsika itself suffers from severe staff turnover and its development initiatives are excessively politicized. Khula was described as a “ghost” which no one has seen. USAID has withdrawn funding. The many service providers in the field compete and now fight over a share of whatever funding “pie” may be available.

The Small Business Unit is not likely to become financially self-sufficient since it is hard to commercialize its services. Generally, South African business types don't like to pay for services. Given the severe needs backlog among the previously disadvantaged population, Terblanche suggested that mass training to bring individuals up to a basic skills level could be useful. Universities and technical schools are now finding that they must spend substantial time overcoming educational deficiencies before disadvantaged students are prepared to enter university level education. The Unit's current clientele are 90% previously disadvantaged. He thought a good background treatment of the problems of SMME's in South Africa was Brian Levy's “The Industrial

Environment for Industrial Small and Medium Enterprises", a study done as part of the World Bank's Informal Discussion series on development.

**4-11 Manufacturers Advice Center (MAC)**

Dale Howarth, Port Elizabeth Operations Director.

The MAC in Port Elizabeth is a pilot project, the first Center to be established in South Africa. Howarth described MAC essentially as a bunch of engineers who've been put together to do diagnostics, that is to determine the specific manufacturing problems to be resolved and to locate a skills provider to deliver the remedy. These services will require co-payment, but on a sliding scale with some subsidization of the smallest companies. MAC is a Section 21 company – not for profit – with a number of sponsors including Ntsika, CSIR, NPR and the Canadian Development Agency. There are many existing small manufacturing companies in the Eastern Cape, many associated with the automotive industry, who could use assistance but are white-owned. MAC's subsidized assistance services are expected to emphasize previously disadvantaged groups so there will have to be some judgment calls as to whether prospective job generation and skills transfers to disadvantaged individuals warrant support to a small company regardless of ownership. Automotive is not the only industry to be served as MAC will be looking into textiles, other metal fabrication, jewelry, tool and die building, plastics and chemicals. The centre is expected to open October 16, 1997 and so it hasn't really started up as yet. It is housed in the Port Elizabeth Teknicon.

**4-12 Eccles Associates**

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Ms. Naughton explained that Eccles signed the contract to administer the EASY program late in 1996 and that she arrived in South Africa in April 1997. Her initial activities were impeded by the fact that the putative partners in the contract pulled out and an arrangement with ABT Associates for cost sharing, etc. had to be worked out.

The objective of the EASY project is to find SME businesses who are credit worthy but who need assistance in documenting their "bankability." Ms. Naughton does not believe that South African commercial banks will become significant lenders to SME's owing to established banking practices which emphasize securitization as a condition to lending and which are not very imaginative. Banks will have to change in the future as their reliance on big corporate clients will be challenged as these mega-corporates move into self-financing through issuance of commercial paper and direct access to bond and equity markets world wide. Small business banking can be profitable but it takes special skills.

The problem of SME financing was the subject of a conference in Cape Town in late September and will be again dealt with at a small business conference scheduled for Durban November 3 – 7.

She thought that in regard to future programs, the prospective donors need to sort through or evaluate the existing NGO's and to pick and choose those which performed well. Certainly there is no need to create new NGO's but support should be given only to those who have proven management capacity and a good performance record. It should be borne in mind, however, that NGO's were not active in South Africa until only the last few years so lack of experience and a period of trial and error is to be expected.

Ms. Naughton's area of expertise is financial markets and in her judgment there will not be much progress in liberalizing banking in SA without introducing competitive pressures. The first area and one of key concern to SME development is legislative reform of the Banking Act, the Insurance Act and Usury Act to permit deposit taking institutions other than commercial banks. Credit unions, mutual savings societies, etc. are not now permitted under South African law. Credit unions and similar organizations set up in rural areas could attract rural savings and recycle them within the community. These institutions could be both more imaginative in their approaches to lending as well as having much lower overheads than traditional banks. Further on this theme would be efforts to attract foreign banks into South Africa. Banks with more modern operating philosophies and more sophisticated financial products could stimulate modernization of the whole SA banking sector.

Ms. Naughton had spent six months in Zimbabwe before coming to the RSA and commented that the SADC states were becoming increasingly resentful of South Africa's using them as a captive market for South African manufactures without offering to buy anything in return.

**4-13 Business Opportunities Center**

Mr. Norman Makgato, Director.  
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The Business Opportunity Center advises small and medium enterprises on business opportunities with large corporates and the government. Potential linkages include clustering, joint ventures, subcontracting and franchising,

BOC provided support to black businesses during the apartheid era. It obtained its funding from a variety of bilateral and multilateral donors, including the European Union. Currently, NGO's like the Business Opportunities Center are finding it difficult to secure financing for their operations; they have not been getting steady financial support.

Makgato described SMME's as being generally disappointed with government small business support agencies such as Khula. He pointed out that BOC has had much longer experience and hence a much better track record in dealing with small black businesses. Organizations like Ntsika and Khula are learning as they go along; as a result, they are making a lot of the mistakes that the BOC made in its early days.

**4-14 Mpumalanga Development Corporation (MDC)**

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This organization supplies finance to all types of SMME's, with a focus on the manufacturing sector.

Various consulting services are provided to clients ranging across managerial, marketing and technical skills development.

The markets supplied by clients are mainly in Mpumalanga with some overflow of transactions into Gauteng Province.

Most of the finance thus far has been allocated to producers in downstream steel manufacturing. Significant amounts have been channeled to curio/craft industries where strong skills exist. The curio/craft industries are already engaged in export markets. Products in this industry are mostly hand made and have a high labor absorption capacity. However management skills necessary to compete and transact in foreign markets are absent and need to be developed.

Agriculture is another sector which to date has been receiving a good share of financing and there are some successful farmers. However the expected 'El Nino' phenomenon is threatening to dampen this trend. There are no agricultural exports from any of the MDC clients.

Another sector receiving finance is the cultural development division where some entrepreneurs are engaged in traditional wine brewing. There are no exports from this sector yet.

## **CATEGORY 5: ECONOMISTS, RESEARCH INSTITUTES**

### **5-1 WesGro (Western Cape Marketing and Investment Promotion Organisation)**

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In introductory remarks, Dr. Thomas stated that contrary to conventional wisdom the aggregate number of accounts held by blacks in the formal banking sector in South Africa dwarfed the number of accounts developed by NGO's serving SMME's. He projected that there were as many as 500,000 SMME accounts among the four major commercial banks and their nation wide branches. He thought that development of SMME's might better come from partnerships between established retailers with developed competencies and disadvantaged business persons to develop retail outlets at a lower level in terms both of size and customer purchasing power.

Speaking of Western Cape exports Dr. Thomas said that the two principal export groups were fresh fruit and wine which together accounted for between

50 and 60% of the Province's exports. Processed food was doing reasonably well, but production of wheat and meat seemed in decline. Industrial clusters which offered potential included the conversion of iron ore now being shipped out of Saldanha Bay to steel and further downstream steel fabrication. Clothing and textile production had been hit by the decline in protection from foreign products but there were still upscale, niche markets which could be served. These niches were usually a question of design and quality rather than price. He thought that there could be specialty niches for furniture as well. Cape Town has a very well established printing and publishing industry. There were also existing industries making metal containers, including stainless steel tanks.

Other areas offering potential for growth are boat building, plastic injection molding and in the information technology field, adapting software for African markets. The Western Cape also offered an attractive locale for corporate headquarters, not only in Cape Town but also in the coastal area around George and Knysna.

#### **5-2 Center for Development and Enterprise**

Stuart Murphy, Research Coordinator.

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The Center for Development and Enterprise is a research institution which has focused over the past few years on demographic and urban development issues. The team purchased several of the research documents for background support in developing this report.

#### **5-3 University of Cape Town, School of Economics**

Province Michael De Klerk, Senior Lecturer.

UCT - School of Economics

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Dr. De Klerk has specialised in the study of the economics of small scale deciduous fruit production. The production, sale and export of fresh, dried and canned deciduous fruit is a major economic activity in the Western Cape. Fruit growers are learning that labor costs and productivity are important and that they can't remain over staffed and stay competitive. One of the ways of reducing direct labor costs and enhancing productivity is to unbundle large orchard operations by selling or leasing portions to employees who become independent suppliers to the large orchard. Dr. De Klerk's studies show that satisfactory rates of return can be obtained from orchard operations of as little as 4 hectares (10 acres). Reducing labor costs and motivating greater productivity are essential: the traditional manning structure of three employees for each 4 hectares in production must be changed to one person per 4 hectares. De Klerk believes that rates of return for selected deciduous fruits are high enough to attract equity capital.

One basis for equity investment would be to consider a given farm as a corporate entity and sell shares to the workers. Sales to the local market will not sustain high quality volume fruit production so exporting is a necessity. For smaller producers this will require access to market channels and technical assistance through extension services.

In Durbanville (Western Cape) a New Farmers Development program has been organized for small scale farm development with five projects under way. Funding support is coming from the U.K., Dutch and German sources as well as South African insurance companies. Current production is concentrated on apples, pears, peaches and apricots together with table grapes. Possible diversification into new crops such as olives and a variety of berries is being explored.

**5-4 University of Port Elizabeth, Institute for Social and Economic Development**

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Dr. Pretorius is disillusioned and unhappy with the government's national economic development policy. He believes that there are two basic macroeconomic models for development: one is the capitalist, market-oriented model which looks to the private sector and open markets to generate growth.

The other is the socialist or statist approach which controls economic activity from the top down and is much concerned over redistribution of existing economic wealth. The Nationalist government's Reconstruction and Development Policy had statist elements but its efforts to target sectors for development were tied in with reconstruction of institutions, cultural uplift and empowerment. The GEAR approach (Growth, Employment and Redistribution) seems more anchored to economic growth than to social development, which must take place along with economic growth.

Current policy appears to support investment in export industry rather than social development. Budgets are cut for SMME and local development. There remains a massive state machinery and a statist government not really involved in development. Provincial governments are largely useless and in the process of going bankrupt. The country needs to develop a "capitalist class" to overcome the established psychology of dependency, especially among the black population. Empowerment should take place at the local government level with the central government a lean, efficient organization. Development should be holistic, industrial as well as social. City to city ties could promote solutions to social problems and stimulate economic development.

Little political change is foreseen through the 1999 elections, but early in the next century if the ANC government has failed to meet popular expectations, popular sentiment may turn. It may turn against what will be perceived as a "bourgeois" organization allied with the international donors and big business towards the redistributionist model, perhaps a coalition of COSATU and former SA communists. South Africa's political process could oscillate between right and left as did the governments of Brazil, Chile and Argentina in recent decades.

#### **5-5 Upstart Business Strategies**

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Upstart Business Strategies is a small, research firm specializing in SMME and disadvantaged development issues. It is located in FABCOS house and FABCOS is one of its major clients. Research conducted may include such

things as reviewing the literature from other countries that have treated with problems similar to those found in South Africa. Mr. Bukula gives the impression of being very well connected within the current political establishment. His belief that major issues affecting SMME development do not include financing - even though it is a problem - but "soft" issues such as project management skills. Among these issues is also association management, that is, how to manage effectively the many associations now involved in assisting the previously disadvantaged. CIPE operated in South Africa for three years offering training to such institutions as FABCOS, but it has dropped its program in South Africa in favour of shifting resources to other Sub-Saharan countries.

Bukula mentioned a serious problem area for the disadvantaged which is housing. Fly by night operators built low cost housing which was poorly constructed and is now collapsing. To combat this, the government has set up a national housing council and has required would be construction firms to register. Registration fees and other requirements are rather onerous for small contractors so the net result is that not only the fly-by-nights but most SMME's have been excluded from government housing programs. Bukula noted that the Building Industries Federation of South Africa (BIFSA) has attempted to help small firms get established through development of a very sensible, how-to book, "A Manual for Smaller Builders" which covers the whole gamut of engaging as a contractor in the building industry. Trying to develop SMME's as sub-contractors to the larger firms is viewed as an important mechanism to help build the latters' capacity.

Mr. Bukula does not view the National Small Business Council as a useful initiative. The government apparently was distressed at the fact that there were a number of organisations such as FABCOS and NAFCOC representing the disadvantaged small and medium business sectors and wanted a single, umbrella organization to act as the voice for all the disadvantaged business community. Bukula believes that it is unrealistic and useless to create yet another organization to act as a single voice, when it would be more fruitful to strengthen and work with existing groups. Bottom up development instead of top down. He recognized that the Small Business Development Corporation had considerable experience and an existing infrastructure but that it was too closely allied with the previous regime. It had been founded to promote black enterprise, but found that too difficult and drifted into working with small white businesses. It is changing its focus, but its past focus led to a loss of confidence by the new government which preferred to try new organizational set ups.

**5-6 Small Business Project**

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The Small Business Project is an NGO that focuses on creating a suitable policy and legislative environment for small business development. They periodically publish research papers on the SMME policy environment as well as a monthly publication, SMME Alert, a newsletter that discusses the impact of legislation on small, medium and micro enterprises. The primary purpose of SMME Alert is to educate the public on SMME policy issues. They are currently analyzing the impact of 150 South African laws on small business development. They have provided input to NEDLAC during policy debates. In addition, they played an instrumental role in contributing to the government white paper on small business.

Overall, Darroll painted a very negative picture of the enabling environment for small business development. She states that the government has no coherent small business strategy. Her central thesis is that a suitable enabling environment with an appropriate incentive framework should be created; direct government intervention in stimulating small business development should be avoided.

The desire to create a private-sector driven approach to SMME development is most clearly manifested in the Private Sector Initiative. Fourteen pilot projects are planned. The PSI provides a mechanism whereby corporations can become involved in small business development. The initial pilot projects will focus on the following activities: public-private sector partnerships in local economic development programs that are intended to increase employment in various municipalities; establishment of technical innovation/advisory centers to promote the development of small businesses.

**5-7 Urban-Econ**

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Urban-Econ is a firm of development economists largely involved in urban planning. They have conducted a number of studies of rural townships in which potential economic activities are analyzed in great detail down to the level of projected revenue streams per duck or fish raised. They are not directly involved in SMME development but believe that they will have to become involved soon. They have done some work in industrial cluster studies including some follow-on work based on studies initially done by TSG. The SMME problem was defined as largely a problem of "human material", that is the lack of education and skills necessary for development. Dr. Overholzer appeared to reflect Afrikaner views and not to have accepted in full the consequences of recent political changes.

**5-8 University of the Western Cape, Bellville**

Dr. Ismail Adams, Chairperson, Department of Economics  
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Dr. Adams is very knowledgeable about the economic situation in the Western Cape. He is involved in a number of initiatives to promote industrial development, including cluster studies for WesGro. Basic growth areas for the Western Cape are seen to be: textiles and apparel; food processing; shipping services; steel fabrication (Saldanha Bay Project); and, possibly, fishing and marine products. It has been virtually impossible to get information from the fishing industry which is a tightly controlled monopoly. Tourism is a major area for growth in the Western Cape and for job generation. As to disadvantaged group participation in economic development, there is the continuing severe lack of skills. Tying disadvantaged group development directly to exports may prove difficult. These groups have historically been channeled into services, distribution, cafes, etc. and logical growth will be in the expansion of businesses directed to the local market.

**5-9 Dr. Tony Patterson, Aluminum Industry Specialist**  
Kempton Park, Gauteng  
South Africa

Over the 18 year period to 1990 the Aluminum industry in RSA showed a domestic cumulative growth of 5,5%. This represents a combination of import substitution over the first 12 or so years and development of local abilities. From 1989 there was a period of no growth for 4 years alongside the world economic downturn. From mid 1994 the demand on the industry has surged alongside increasing prices.

From its inception the industry was market led. Continuing investments over many years represents faith in the future of the metal locally and internationally. The industry anticipates the world and local markets to continue to grow faster than rates of population increase and to develop attractive job opportunities complementing the 15000 positions in the industry.

The new R6.4 billion Alusaf smelter should bring local primary aluminum production to 650 000 tons / annum. This huge investment is a commercial venture intended to service the export market. This investment, along with investments made by Hulett Aluminum poses a huge opportunity for the South African industry to develop downstream for the export markets, especially in the auto components industry where aluminum is enjoying increased usage.

## **CATEGORY 6: INCUBATORS**

**6-1 Community Self-Employment Centre (COMSEC)**  
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Mr. Heynes is also Deputy Mayor of Port Elizabeth and is Chairman of the Coega Initiative, a planned deep water port and industrial zone development adjacent to Port Elizabeth. Heyne's business experience came from several years' experience at a professional level with Shatterprufe Glass, a major maker

of automotive glass. An Economic Development Committee decided to develop a self-employment centre where all kinds of training and support could be given to previously disadvantaged individuals who wanted to start manufacturing businesses. A 20-year lease was negotiated with Spoornet for an abandoned locomotive repair centre which with loan funds from DBSA was converted into a small manufacturing centre.

The objective is to identify disadvantaged would-be entrepreneurs and offer space at a below market rental as well as a host of support services including entrepreneurial training, accounting services, help in securing tenders and financing and technical training related to manufacturing. One company established here fulfills tenders from Delta Automotive (a GM-affiliate). The original tender was to repair metal bins used for parts storage, but the business has grown to include metal cabinets, metal panels and, recently, a tender for small brackets to be used in automotive trunk lid assemblies. Another business makes apparel for both private and governmental clients. Another makes wooden pallets for Delta and yet another produces upholstered furniture. COMSEC expects to act as an incubator and when its clients reach a viable stage they are to be graduated, leaving the facility and seeking their own niche in the market.

A problem Heynes has identified is that even individuals with developed skills who find themselves unemployed still have an "employee" mentality. They're really looking for a job with steady income. To start up a new business requires a change of mental outlook, a willingness to accept risk. COMSEC sees its role as offering "extension services" to small businesses. It is willing to offer its services to other SMME's not just its tenants. In fact, it hosts a variety of training seminars on its premises and its data centre has engaged in such support services as dubbing video tapes on tax matters in African languages.

COMSEC faces the issue of self-sufficiency which may prove possible through raising its rental rates for tenants as they expand as well as charging for some products and services.

## 6-2 Highveld Entrepreneurial Development Centre (HDEC)

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This organization consists of three people, who manage seven hectares of land allocated by the Local Authority. The HDEC's objective is to develop the land into an industrial park for SMME's.

Currently there are 21 to 25 emerging businesses engaged in small scale manufacturing. Among the products produced in this complex are the following:

Clothing: Two factories employing five to ten people each. These units are highly flexible in that they produce low quantities of a particular style (e.g. track suits for a soccer team). The quality of output would be similar to clothes sold in the big department stores e.g. Edgars.

Steel Products: One factory unit +/- 40 square meters a black owner skilled in the art of designing and fabricating metal (steel) gates, steel fences, and steel furniture. Only one worker is employed to assist the owner. The market is currently limited to affluent homeowners in the region. The value of orders average about R15000-00 at a time and production is fairly slow because of limited capacity. This business is highly profitable.

Tombstones: One innovative entrepreneur who applies spray - painting techniques to convert concrete into the granite / marble effect. The same techniques are applied to kitchen units giving concrete slabs the granite/marble effect. The life of the paint-work is estimated to be +/- 25 years. Final buyers of these products by at one third the price of real granite / marble products.

The factory units of this complex supply the surrounding markets and experience the same problems of emerging businesses elsewhere. Working skills are of a good standard, but there is a need for training in management skills. The individual businesses need financial assistance in order to take advantage of market opportunities to grow their operations.

The HDEC itself requires +/- R2m to develop more units, build a road on the complex grounds to facilitate transport, loading and off-loading on premises.

Currently the HDEC is in debt. It received R45,000 from Gencor in 1996, and R210,000 from NEPA of which R150,000 was used to refurbish the complex.

**6-3 KwaZulu Finance Corporation**

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This division of the KwaZulu Finance Corporation has assisted in the establishment of more than 1,000 new agriculturally oriented enterprises to expand in the 1996/1997 financial year. It aims to establish a further 1,436 during the 1997/1998 financial year. The KFC maintains that entrepreneurial development in the agricultural sector is an integral and important part of both rural development and the economy of KZN.

The most successful sector in agriculture for emerging and bigger business in KZN is sugar. However the availability of land remains a serious constraint on rural development.

KFC funded the purchase of 2,000Ha of land from sugar giants Hulett and Illovo. This land is used for growing sugar only. Hulett and Illovo sold the land at a price that will allow farmers to realize an 11% return. Farm sizes vary from micro to medium.

There are many other sub - sectors in agriculture financed by KFC, such as cotton and various vegetable crops.

KFC Rural development division serves about 4,400 clients with an outstanding balance of R88m.

KFC's products have been changing over time for efficiency reasons and its financial performance has improved since 1994 as a result of its clients' successes.

**7-2 First National Bank**

Haley McCombi, Client Services,  
Development Finance Institutions, Paris Macropulos, Head of Development  
Finance Institutions  
F. Dunlop, Chief Manager, Trade Department, Harry Golding, Senior  
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The bank's development finance institutions department liaises with international institutions with respect to various lending and credit guarantee programs. They are also active in export promotion in the sense that they actively market the bank's services to existing exporters and offer a range of marketing and financial advice. It has played a major role in RSA government export credit programs, but these have generally been in support of established, mostly white-owned, businesses.

First National Bank beginning in January 1998 will manage an EC funded program of small business development. The funds (about US\$4 million) will be divided equally into loan funds and training.

It became clear from the discussion First National Bank has had very little experience in disadvantaged SMME development. Their preferred client base remains major corporations. Their small and medium business portfolio follows established bank practices with respect to lending criteria. We were unable to detect any imagination of the part of these bank officials as to how to address the financing problems of SMME's. They noted the sorry lack of education and skills among the previously disadvantaged but didn't seem to have any solution in mind that could be carried out by the bank.

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## **CATEGORY 7: BANKS**

### **7-1 Standard Bank of South Africa**

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Standard Bank operated a microenterprise pilot lending project directed at firms with 10 or fewer employees for three years between 1992 and 1995. At its peak, the project had 2,000 clients. However its loan delinquency ratio ran between 12 and 15% and the Bank decided that the administrative costs, etc. were too high for this to be a viable activity and the Project was ended.

In its place, in 1996, they have begun a decentralized small and medium enterprise lending program. Deciding that centralized SME lending programs wouldn't work, they have set up seven branch program managers in the four major business markets, Gauteng, Western Cape, Eastern Cape and Kwa-Zulu Natal. The lending targets will be from 500,000 to 5 million Rand. They expect to expand the program in 1998.

In retail banking, Standard Bank employs 12,000 in the four business centers in South Africa. Of their 205,000 small business accounts, Mahlalela estimates that between 25 30% are from disadvantaged groups. Standard Bank would like to get back into microlending, but not directly. It is looking for a qualified NGO operating on a national basis to which it would lend capital, leaving the NGO the tasks of actually lending to microentrepreneurs. So far it has not identified such an NGO.

## **Appendix C: Bibliography of Materials Collected With Brief Annotations**

Basic Conditions of Employment Bill – Addressing The Needs of Small Business. Small Business Project, Houghton, South Africa, 3 July 1997.

Annotation: Document that describes the provisions included in the South African Employment Bill. The Small Business Project is a non-governmental organisation that specifically deals with issues concerning SMME development. This document was published as an “issues paper” for its constituency and other interested parties.

Business Confidence Index, Survey of Confidence Levels in the Manufacturing Sector. SACOB, Johannesburg, South Africa, July 1997.

Annotation: This document is an assessment of the South African business environment, including economic commentary.

Business Voice. South African Chamber of Business (SACOB), Johannesburg, South Africa, July 1997.

Annotation: This document is the magazine of the South African chamber of Business. It includes articles on investment, labor, and other issues.

Census '96: Preliminary Estimates of the Size of the Population of South Africa. Central Statistics (CSS), Pretoria, South Africa, June 1997.

Annotation: This document is preliminary data on the size of the population of South Africa. This is a precursor to the main census report.

Central Statistics Annual Report, 1996. Central Statistical Service, Pretoria, South Africa, 1996.

Annotation: This document is a report of CSS activities during 1996.

Centre For Development And Enterprise. Information folder. CDE, Johannesburg, South Africa.

Annotation: This document provides background information on CDE and describes its project areas.

Characteristics and Support Needs of Black Small and Micro-enterprises in KwaZulu-Natal. The Economic Research Unit, University of Natal, Durban, South Africa.

Annotation: This report was published in conjunction with the Black Entrepreneurship and Enterprise Support facility. The document summarizes results of the organisations' joint project to facilitate the integration of the Black informal sector in KwaZulu-Natal, historically disadvantaged, marginalized and discouraged, into the mainstream of economic activity in the province.

Clothing Industry of South Africa: 1997 Product Directory and Handbook. Clothing Federation of South Africa, Gardenvue, South Africa, 1997.

Annotation: This document is a membership list as well as a listing of product areas within the clothing industry. It also has various relevant data on the clothing industry in general.

Company Involvement in Small and Medium-sized Business Development. The Private Sector Initiative (Psi) for Small business Development (Small Business Project), Johannesburg, South Africa.

Annotation: This document describes the Private Sector Initiative; what it is, and what it does.

Competitive Markets – An Imperative For Small Business Growth. Small Business Project, Johannesburg, South Africa, 21 July 1997.

Annotation: This document is an Issues Paper of the Small Business Project and provides a small business perspective on competition policy in South Africa. This perspective is based on the premise that competitive markets are not only absolutely necessary for large-scale enterprise, but also an imperative for small business growth.

COMSEC Local Business Service Centre. Information pamphlet. COMSEC, Port Elizabeth, South Africa.

Annotation: This pamphlet gives a brief description of COMSEC and the services that it provides.

Constraints Encountered and Challenges Identified by Khula. Khula Enterprise Finance Ltd, Rivonia, South Africa.

Annotation: This document discusses constraints and challenges encountered by Khula, and how to overcome these issues. Delivery, directly and indirectly, of not less than R1 billion to the SMME sector over the next two to three years.

Co-operation Between The European Union and The Republic of South Africa. Delegation of the European Commission, First Report, 1994-1996.

Annotation: This report covers the activities of the Delegation of the European Commission, as well as the progress of the European Union/South Africa cooperation during 1994-96. The report basically covers any programs or activities undertaken by the EU in South Africa.

Credit Guarantee – Credit Support Services. Credit Guarantee Insurance Corporation of Africa Limited, Randburg, South Africa.

Annotation: This document details the credit support services available from Credit Guarantee.

Credit Guarantee – Short Term Export Credit Insurance. Credit Guarantee Insurance Corporation of Africa Limited, Randburg, South Africa.

Annotation: This document details short term export credit insurance provided by Credit Guarantee.

CSIR 1997 – Technology Impact. CSIR, Pretoria, South Africa, 1997.

Annotation: This document presents information on CSIR's various technology-oriented projects and its role.

Department of Economic Affairs and RDP, Small Business Promotion Programme. Department of Economic Affairs and RDP.

Annotation: This document has information on the Department's SMME and business development related programs. Programs include: SMME Training Support Programme, Business Service Centre Support Programme, SMME Networking and Procurement Linkage Programme, and Micro-(First Generation) Support Programme.

Development and Democracy – Business and government in South Africa. Centre For Development And Enterprise, Johannesburg, South Africa, November 1996.

Annotation: This document by CDE contains two conversations held focusing on business in South Africa. Issues include: the nature and content of the interaction between business and government; the challenges confronting a newly democratic South Africa; and the politics of economic reform. Participants are from differing background.

Development Bank of Southern Africa – Annual Report 1997. DBSA, Midrand, South Africa, 1997.

Annotation: This document is an annual report of DBSA for 1997.

Doing Business In The Eastern Cape. Centre For Investment and Marketing In The Eastern Cape, East London, South Africa, May, 1997.

Annotation: This document by CIMEC provides information on the business environment in the Eastern Cape, as well as general information, investment incentives, taxation, and work permit information.

Durban Chamber of Commerce and Industry Membership Directory 1996/1997. DCCI, Durban, South Africa, 1996.

Annotation: This document is a membership directory of the Durban Chamber of Commerce and Industry. It is indexed alphabetically and by industry sector.

Earning And Spending In South Africa. Central Statistics (CSS), Pretoria, South Africa, 1995.

Annotation: This document is a CSS survey on income and expenditure in South Africa. The report describes how income is distributed in South Africa and examines expenditure patterns in households.

Eastern Cape Development Agencies. Information packet. ECDA, East London, South Africa.

Annotation: This document gives information on ECDA development finance programs: Student Venture Programme, Young Adult Programme, Women Venture Programme, New Venture Programme, Conventional Loans and Guarantee Programme, and Builders Finance Programme.

Engineering Week – Excellence in Manufacturing. Systems Publishers Ltd, Craighall, South Africa, June, 1997.

Annotation: This document is a magazine dealing primarily with issues affecting manufacturing. Articles include company profiles, business confidence, export matters, and other related issues.

EU Bi-Lateral And Multi-Lateral Development Finance Facilities for South/ern Africa. EuroChamber of Commerce and Industry, Sandton, South Africa, September, 1997.

Annotation: This document is a survey produced by the EuroChamber for the general information of European banking and finance professionals operating in South and southern Africa, as well as for potential investors seeking European finance and partners for investment projects in this region. It only covers institutions providing funding for projects of an investment nature.

Europartenariat, Northern Scandinavia 1996. European Commission, Lulea, Sweden, 1996.

Annotation: The document is a promotion of Scandinavian companies and is full of potential matchmaking possibilities with Scandinavian companies looking for cooperation, indexed by industry sector.

Export Finance Scheme. First National Bank of Southern Africa Limited, Johannesburg, South Africa, 1 June 1996.

Annotation: This pamphlet provides information on the export finance scheme introduced by DTI through Credit Guarantee Insurance Corporation of Africa. Topics covered include requirements, modus operandi, advantages, costs, and contact information.

Export Incentives by Directorate Financial Assistance Schemes (FAS). Department of Trade and Industry, Pretoria, South Africa, August 1997.

Annotation: This document is text of the actual export incentives offered by DTI. It includes EMIA and ECRS and services provided therein.

Export Marketing Reports On SA Products. DTI, Pretoria, South Africa.

FABCOS Annual Report 1996. FABCOS, Johannesburg, South Africa, 1996.

Annotation: This document is a report of FABCOS activities for 1996. It also includes an explanation of FABCOS as an organisation.

First National Bank of Southern Africa - Specialised Trade Services. FNB, Johannesburg, South Africa.

Annotation: This pamphlet lists services available from FNB in trade services.

Getting Into Gear. Centre for Development Enterprise (CDE), Johannesburg, South Africa, 1997.

Annotation: This document by CDE focuses on Gear and is a discussion of perceptions, expectations, and positives/negatives of the Gear program.

Goals For Building A Leading Economy 1997. Department of Economic Affairs and RDP.

Annotation: This document lists goals, objectives, key priorities for 1997, and focus with reference to economic objectives in 1997.

Government Reports On Small Business. Annual Review – 1997, DTI/NSBC/Ntsika/Khula, South Africa.

Annotation: This document has some articles about SMME development among previously disadvantaged groups. It also includes information about “where to go for help” or business advice in every province.

Growth For All: An Economic Strategy for South Africa. South Africa Foundation, Johannesburg, South Africa, February 1996.

Annotation: This document describes according to the study, the reforms required involving crime/violence, government spending, privatisation, labor, and exports. Details are given involving a coordinating program for the economic strategy that includes policies, timing, credibility, and the RDP.

Independent Business Enrichment Centre. Information folder (IBEC), Johannesburg, South Africa.

Annotation: This document is an IBEC publication that includes success stories, articles on German and Danish cooperation, and background on IBEC.

Independent Business Enrichment Centre – News. IBEC, Johannesburg, South Africa.

Annotation: This document is an informational piece on IBEC, including organisation background and case studies.

Industrial Development Corporation of South Africa Limited (IDC). Information folder. Sandton, South Africa.

Annotation: This document provides information on the activities of the IDC, including a corporate profile, objectives, focus, and program information.

Infocom – Providing A Platform For Business. PE Regional Chamber of Commerce & Industry, Port Elizabeth, South Africa, September 1997.

Annotation: This document is PERCCI magazine including articles on small business development, international competitiveness, World Bank procurement, and Port Elizabeth exporters.

International Trade Training Courses. Safto: Institute of Export, Johannesburg, South Africa, September 1997.

Annotation: This document lists courses and workshops offered by Safto including, “Understanding Letters of Credit, Introduction to Exporting,” and other classes.

Investing In KwaZulu-Natal, 1997. KwaZulu-Natal Marketing Initiative, Durban, South Africa, 1997.

Annotation: This document is a guidebook for doing business by way of an introduction and mainly investing in the province of KwaZulu-Natal.

Investment South Africa. Information folder, including information on investment/export incentives. Sandton, South Africa.

Annotation: This document is background information on Investment South Africa, its role, services provided, and all investment incentive schemes available in South Africa.

Izwi Le: The Voice of COMSEC. COMSEC, Port Elizabeth, South Africa.

Annotation: This document is a newsletter detailing some recent happenings related to COMSEC, an accredited business centre in Port Elizabeth.

Khula Enterprise Finance Ltd. Information folder including annual report, Rivonia, South Africa.

Annotation: This document is a folder containing Khula’s annual report for 1997, background information on Khula Enterprise Finance, and information on Khula’s programs.

Manufacturing Advisory Centre Pilot Programme – Draft Project Document. Ministry of Foreign Affairs/DANIDA, Copenhagen, Denmark, June 1997.

Annotation: This document describes the DANIDA program that is a partnership between Ntsika, CSIR, and the National Productivity Institute (NPI) to establish regional centres around South Africa to assist SMME manufacturers in improving their competitiveness and growth in the local and international market places.

Markets In The State Sector, Procurement Guidelines for Small, Medium and Micro Enterprises (SMMEs) and Service Providers. Ntsika Enterprise Promotion Agency, Johannesburg, South

Africa, 1997.

Annotation: This document contains procurement guidelines for SMME companies. The document gives information about the State Tender Board to service providers for the purpose of improving SMME participation in state markets.

NAACAM 1997 Directory. National Association of Automotive Component and Allied Manufacturers, Johannesburg, South Africa, 1997.

Annotation: This document is a membership directory for NAACAM. The directory is indexed by company name and by business product.

NAFCOC Business Annual 1996. African Business/NAFCOC, Johannesburg, South Africa, 1996.

Annotation: This document is a magazine containing articles on NEDLAC, empowerment, history of NAFCOC, and information about the South African provinces.

National Small Business Act, 1996. 27 November 1996.

Annotation: This document is the actual text of the National Small Business Act of 1996.

National Economic Development and Labour Council Annual Summit. Report to the annual summit, 24 May 1997. (NEDLAC) Johannesburg, South Africa, 1997.

Annotation: This document is a report on NEDLAC activities for the time period of 1 April 1996 to 31 March 1997, basically its annual report. It also includes a report on social and economic developments in South Africa.

National Economic Initiative Business Opportunity Centre – Annual Narrative. Business Opportunity Centre, February, 1997.

Annotation: This document is a report about the activities of the organization during 1996. It also describes the organization and business opportunity centers in general.

NBI Initiative. NBI, Johannesburg, South Africa, July/August 1997.

Annotation: This document is a publication of NBI that has articles about NBI and related topics.

“New Export Finance Guarantee Scheme For Small Exporters.” Information pamphlet. DTI/Credit Guarantee, Gauteng, South Africa.

Annotation: This pamphlet gives background information and qualification criteria for the guarantee scheme sponsored by DTI and Credit Guarantee.

“NORAD Matchmaking Programme.” Information folder, Norwegian Agency For Development Cooperation, Sandton, South Africa.

Annotation: This pamphlet describes the NORAD matchmaking program, including program structure, criteria for potential candidates, objective of the program, and relevant sectors.

Optima. Anglo-American Corporation, Johannesburg, South Africa, January, 1997.

Annotation: This document is a magazine published by Anglo American Corporation and De Beers. This issue includes articles on Anglo's work with SMME development.

"PE SMME Environment – Procurement Sources." Information sheet.

Annotation: This sheet maps out procurement sources.

Perceptions and Views of European Banks and Financial Institutions in South Africa.  
EuroChamber of Commerce and Industry in Southern Africa, Johannesburg, South Africa, September, 1997.

Annotation: The report reflects the views of a representative cross-section of European banks and financial institutions operating in South Africa on market conditions for EU interests in the country. It is self-described as not being comprehensive or conclusive.

Phoenix Venture Partners SA (Pty) Ltd. Information pamphlet. Johannesburg, South Africa.

Annotation: This pamphlet provides background information on Phoenix Venture Partners and some of its key staff members.

Port Elizabeth Regional Chamber of Commerce & Industry, 1996/97 Directory. Port Elizabeth Regional Chamber of Commerce & Industry, Port Elizabeth, South Africa, 1996.

Annotation: This document is a listing of all PERCCI members alphabetically by name and by industry sector.

Port Elizabeth Transitional Local Council, "Attention Emerging Business People." Port Elizabeth Transitional Local Council, Port Elizabeth, South Africa.

Annotation: This sheet is a call for entrepreneurs and small businesses, emerging contractors, and emerging consultants to become part of a database being compiled by the Port Elizabeth Local Council.

President's Conference on Small Business, The. International experts' comments on input papers.

Annotation: This document contains excerpts from the papers contributed by foreign experts invited to this conference. The conference focused on implementation issues and foreign lessons of success and failure having to do with government involvement with small business.

Products of Southern Africa. The Export Association of Southern Africa, Pretoria, South Africa, 1997.

Annotation: This document is sponsored jointly by the DTI and Ntsika as well as the Export Association. It includes a listing, indexed by product, of South African companies.

Province Of The Eastern Cape, Department of Economic Affairs, Environment and Tourism – Annual Report 1996/97. DEAET, Bisho, South Africa, 1997.

Annotation: This report reviews the activities of the Department of Economic Affairs, Environment and Tourism which is responsible for the promotion of the economy of the Eastern Cape amongst its duties. The report covers the period of 1 April 1996 through 31 March 1997.

Quarterly Political Notes. SACOB Parliamentary Information Centre, Cape Town, South Africa, February-June 1997.

Quarterly Trends. NBI, Johannesburg, South Africa, August 1997.

Annotation: This document presents positions on political and other issues of importance to NBI.

Report on Phase One of the Workplace Challenge. National Economic Development and Labour Council (NEDLAC), Auckland Park, South Africa.

Annotation: This NEDLAC report summarizes the conclusions, recommendations, and evaluation of Phase One of the Workplace Challenge. The Workplace Challenge was a joint initiative of NEDLAC and National Productivity Institute (NPI), with the participation of DTI. The initiative has been designed to help companies meet the challenge of South Africa's re-entry into the global market, and to respond to the accompanying need to respond to the pressures of competition in domestic and international markets.

RSA Statistics In Brief – 1996. Central Statistical Service (CSS), Pretoria, South Africa, 1996.

Annotation: This document is from the CSS and includes various statistics on South Africa in the following topic areas: geography and climate, political dispensation, demography, tourism, housing, education, literacy, health and welfare, household food consumption, labour, agriculture, mining, manufacturing, energy, construction, foreign and internal trade, transport, communication, national accounts, government finances, prices, purchasing power, price increases, and exchange rates.

Safto Brochures. Safto, Johannesburg, South Africa.

Annotation: This document is three Safto brochures describing Safto's International Trade Consulting Division, Safto's Institute of Export, and Safto's Membership Service.

Sasol Annual Report 1997. Sasol Limited, Johannesburg, South Africa, 1997.

Annotation: Annual report of Sasol and Sasol Group companies during 1997.

Small Business Development Corporation Ltd – Annual Report 1997. SBDC, Johannesburg, South Africa, 1997.

Annotation: Annual report of SBDC activities during 1997.

“Small Business Development Corporation – Loan Partner.” Information pamphlet. SBDC, Johannesburg, South Africa.

Annotation: This pamphlet provides details of the SBDC program of providing assistance to SMME's as a “Limited Loan Partner.”

“Small Business Development Corporation – Risk Partner and Property Partner.” Information pamphlet. SBDC, Johannesburg, South Africa.

Annotation: This pamphlet provides details of the SBDC programs of providing assistance to SMME's as a “Limited Risk Partner” and a “Limited Property Partner.”

“Small Business Development Corporation – Equity Partner.” Information pamphlet. SBDC, Johannesburg, South Africa.

Annotation: This pamphlet provides details of the SBDC program of providing assistance to SMME's as a “Limited Equity Partner.”

Small Business: The Engine of Local Economic Development. Invitation – The Second National Conference On Small Business, November 3-7, 1997, Durban, South Africa.

Annotation: This document is an invitation, background, and overview of the conference on small business. It also includes conference topics, program, and structure.

Small Medium Micro Enterprise Alert! Small Business Project, 5 July 1996.

Annotation: This document is a newsletter published by the SBP including information and articles of importance to those involved in SMME businesses. This issue includes articles on employment standards, National Small Business Act, and government's macro-economic strategy.

Small Medium Micro Enterprise Alert! Small Business Project, 6 September 1996.

Annotation: This document is a newsletter published by the SBP including information and articles of importance to those involved in SMME businesses. This issue includes information on “improving access to credit for small enterprises and low income communities.”

Small Medium Micro Enterprise Alert! Small Business Project, 7 October 1996.

Annotation: This document is a newsletter published by the SBP including information and articles of importance to those involved in SMME businesses. This issue includes information on the National small Business Bill.

Small Medium Micro Enterprise Alert! Small Business Project, 1 May 1997.

Annotation: This document is a newsletter published by the SBP including information and articles of importance to those involved in SMME businesses. This issue includes information on "improving the legal and regulatory environment for small business."

Small Medium Micro Enterprise Alert! Small Business Project, 2 July 1997.

Annotation: This document is a newsletter published by the SBP including information and articles of importance to those involved in SMME businesses. This issue includes information on the basic conditions of the new Employment Bill.

Small Medium Micro Enterprise Alert! Small Business Project, 3 August 1997.

Annotation: This document is a newsletter published by the SBP including information and articles of importance to those involved in SMME businesses. This issue includes information on "relieving the tax burden for SMMEs."

South Africa: The Journal of Trade, Industry & Investment. Redsand Publishing, Sandton, South Africa, 2<sup>nd</sup> Quarter, 1997.

Annotation: This document is a magazine with many articles including some on Black economic empowerment, stock market information, and information on the new Labour Act.

South Africa - Business Guidebook. International Trade Bureau, Yeoville, South Africa, 1997.

Annotation: This document a guide to doing business in South Africa. It includes information on economic indicators, trade statistics, information on the RDP, and many listings of companies and service providers in various industry sectors.

South African Chamber of Business. Information folder, SACOB.

Annotation: This document is an introduction to SACOB and its operations.

South African Chamber of Business – Parliamentary Information Centre. Information folder. Cape Town, South Africa.

Annotation: This document provides various information pertaining to the services provided by the Parliamentary Information Centre of SACOB.

South Africa's Small Towns – New Strategies For Growth And Development. Centre For Development And Enterprise (CDE), Johannesburg, South Africa, May 1996.

**Annotation:** This CDE report contains analytical and policy conclusions about small towns in South Africa. How small towns are classified by the Government, small towns as a method of meeting development challenges, and Government policies towards small towns are several main points brought up in this document.

Southern African Decisions. Highbury House Communications PLC, London, UK, October-December, 1997.

**Annotation:** This document is a magazine dealing with issues affecting southern Africa including regional business news and a great deal of information concerning investments.

Southern African Success. Business Insight, Johannesburg, South Africa, Summer 1996/97.

**Annotation:** This document is a magazine dealing primarily with entrepreneurial activity and issues affecting southern African entrepreneurs.

Southern African Success. Business Insight, Johannesburg, South Africa, Autumn, 1996.

**Annotation:** This document is a magazine dealing primarily with entrepreneurial activity and issues affecting southern African entrepreneurs. This issue includes an article on the Labour Act, and one on "how to get started in exporting."

Stainless Steel Buyers Guide - 1997. Southern Africa Stainless Steel Development Association, Rivonia, South Africa, 1997.

**Annotation:** This document is a reference guide to the stainless steel industry in southern Africa. It contains information that includes technical data on all aspects of stainless steel, a complete list of the products and services supplied by Sassda members, industry activity and company profiles.

Standard Code List of Areas. Central Statistical Service (CSS), Pretoria, South Africa, June, 1994.

**Annotation:** This document is a standard listing of city codes by the CSS.

Triple Trust Newsletter. Triple Trust Organisation, Mowbray, South Africa, October 1997.

**Annotation:** This document is a newsletter containing articles on "building self-sustainability" as well as others concerning development. The slogan of Triple Trust is "People Empowerment through Enterprise Development."

Triple Trust Organisation – Business Plan Development Course. Triple Trust Organisation, Mowbray, South Africa.

**Annotation:** This document is a pamphlet describing a course in business plan development offered by the organisation.

University of Port Elizabeth – Institute for Development Planning and Research. Annual Report 1996. Port Elizabeth, South Africa, 1996.

Annotation: This document is a report of the activities of the Institute during 1996. It also includes a brief description of the Institute's mission, role, services, and projects.

University of Port Elizabeth – Institute for Development Planning and Research. Information pamphlet. Port Elizabeth, South Africa.

Annotation: This pamphlet contains information on the Institute including its mission, role, history, and skills.

Work Programme & Strategy – 4<sup>th</sup> Quarter 1997. National Business Initiative For Growth, Development & Democracy, Johannesburg, South Africa, 1997.  
World Trade Centre. Information folder. Johannesburg, South Africa.

Annotation: This NBI document discusses the achievements, objectives, and programs of the organisation.

World Trade Centre: Your Shop Window in Southern Africa. World Trade Display Centre, Johannesburg, South Africa.

Annotation: This document is an introduction to services provided by the World Trade Centre in Kempton Park, Johannesburg.

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## Appendix E: List of US Companies Exporting From South Africa

### ABBOTT LABORATORIES

100 Abbott Park Rd.  
Abbott Park, IL 60064-3500  
847-937-6100  
ABT-n  
002824

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	193	0.4%

#### Abbott Laboratories South Africa (Pty.) Ltd.

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Manufacture and distribution of prescription drugs, highly specialized diagnostic and nutritional products, and hospital products and equipment

Brand name(s): Abbott

SIC code(s): 2834, 5047

Number of employees: 193

### AIR PRODUCTS AND CHEMICALS INC.

7201 Hamilton Blvd.  
Allentown, PA 18195  
610-481-4911  
APD-n  
009158

225

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	120	0.8%

**Air Products South Africa (Pty.) Ltd.**

Percent of equity held: 50%

Location(s): Johannesburg

Product line(s): Production and sale of industrial gases and resale of specialty chemicals

Brand name(s): Air Products

SIC code(s): 5169

Number of employees: 120

Air Products repurchased its former subsidiary, which it sold in August 1987, in September 1994.

**ALBANY INTERNATIONAL CORP.**

P.O. Box 1907

Albany, NY 12201

518-445-2200

AIN-n

012348

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	254	4.5%

**Beier, Albany & Co. (Pty.) Ltd.**

Percent of equity held: 50%

Location(s): Pinetown (Durban)

Product line(s): Paper machine clothing and related industrial fabrics

Brand name(s): Albany International

SIC code(s): 2221

Number of employees: 254

**ALLERGAN INC. Ø**

2525 Du Pont Dr.

Irvine, CA 92715

714-752-4500

AGN-n

018490

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	34	0.6%

**Allergan South Africa (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Eye products

Brand name(s): Allergan

SIC code(s): 2834

Number of employees: 34

Allergan also has a wholly owned South African subsidiary named Allergan Pharmaceuticals (Pty.) Ltd., which has no employees.

**AMERICAN GREETINGS CORP.**

One American Rd.

Cleveland, OH 44144

216-252-7300

AGREA-o

026375

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	369	1.7%

**S.A. Greetings Corp. (Pty.) Ltd.**

Percent of equity held: More than 50%

Location(s): Roodespoort (Johannesburg)

Product line(s): Greeting cards

Brand name(s): Carlton Cards, American Greetings

SIC code(s): 2771

Number of employees: 369

The Christian Foundation, a nonprofit religious organization founded in 1937, owns the remaining stake in S.A. Greetings Corp.

**AMERICAN HOME PRODUCTS CORP.**

5 Giralda Farms

Madison, NJ 07940

201-660-5000

AHP-n

026609

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	67.9	0.5%
Assets (millions U.S. \$)	6.1	0%
Employees	233	0.4%

**American Cyanamid Corp., U.S.A.**

Percent of equity held: 100%

**South African Cyanamid (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Isando

Product line(s): Pharmaceuticals, sutures, medical devices, animal health and agricultural chemicals

Brand name(s): NA  
SIC code(s): 2834  
Number of employees: 233

American Home Products acquired American Cyanamid Corp., previously listed in Section I, in late 1994. American Cyanamid also owns the following dormant subsidiaries: Cyanamid Africa Ltd., which, in turn, owns Cyanamid Southern Africa (Pty.) Ltd., which also is dormant, and S.A. Durachem Laboratories (Pty.) Ltd. American Cyanamid sold a 29.6 percent interest in Laminate Industries (Pty.) Ltd. in 1993.

American Home Products also retains licensing agreements with the purchasers of three South African subsidiaries it sold in the 1980s: Whitehall Products (S.A.) (Pty.) Ltd., Wyeth-Ayerst (Pty.) Ltd. and A.H. Robins (S.A.) (Pty.) Ltd.

**AM INTERNATIONAL INC. Ø**

333 W. Wacker Dr., Suite 900  
Chicago, IL 60606  
847-375-1700

AM-a  
001723

FY 1994	in South Africa	% of worldwide	
Sales (millions U.S. \$)	ND	ND	
Assets (millions U.S. \$)	ND	ND	
Employees	292	36.5%	

**AM International (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Sandton

Product line(s): Distributor of business graphics equipment and supplies to the image systems and the reprographics markets

Brand name(s): AM International

SIC code(s): 3577

Number of employees: 292

229

**AMSTED INDUSTRIES Ø**

205 N. Michigan Ave.  
Chicago, IL 60601-5914  
312-645-1717

Privately held

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	93	1%

**Baltimore Aircoil Co. Inc., U.S.A.**

Percent of equity held: 100%

**Baltimore Aircoil Co. S.A. (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Cape Town

Product line(s): Manufacturer of cooling equipment for use in air conditioning  
and refrigeration

Brand name(s): Baltimore Aircoil

SIC code(s): 3724

Number of employees: 93

**APPLE COMPUTER INC.**

20525 Mariani Ave.  
Cupertino, CA 95014  
408-996-1010  
AAPL-o  
037833

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	10	0.1%

**Apple Computer S.A. (Pty.) Ltd.**

Percent of equity held: ND

Location(s): Sandton (Gauteng)

Product line(s): Computers and software services and wholesale distribution

Brand name(s): Macintosh, Newton

SIC code(s): 7370, 5045

Number of employees: 10

Apple, whose Sandton office opened in May 1994, also has distribution agreements with two South African firms, HNR Computers and The Core Business, who in turn appoint authorized resellers.

**ARVIN INDUSTRIES INC.**

1531 E. 13th St.

Columbus, IN 471201

812-379-3000

ARV-n

043339

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	32.3	1.5%
Assets (millions U.S. \$)	12.6	1%
Employees	491	4.1%

**Maremont Corp., U.S.A.**

Percent of equity held: 100%

**Gabriel S.A. (Pty.) Ltd**

Percent of equity held: 100%

Location(s): Cape Town

Product line(s): Manufacture, import, export and sale of shock absorbers for motor vehicles

Brand name(s): Gabriel  
SIC code(s): 3710  
Number of employees: 491

**AVERY DENNISON CORP.**

150 N. Orange Grove Blvd.  
Pasadena, CA 91103  
818-304-2000  
AVY-n  
053611

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	11.8	0.4%
Assets (millions U.S. \$)	6.1	0.3%
Employees	62	0.4%

**Fasson Products (Pty.) Ltd.**

Percent of equity held: 100%  
Location(s): Johannesburg  
Product line(s): Sale of self-adhesive base material  
Brand name(s): Avery, Avery Dennison  
SIC code(s): 2672  
Number of employees: 62

**AVNET INC.**

80 Cutter Mill Rd.  
Great Neck, NY 11021  
516-466-7000  
AVT-n  
105380

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	14.5	0.3%
Assets (millions U.S. \$)	7.8	0.3%
Employees	182	1.9%

**Kopp Electronics (Pty.) Ltd.**

Percent of equity held: 80%

Location(s): Sandton

Product line(s): Marketing and distribution of electronic components and equipment

Brand name(s): Kopp

SIC code(s): 5065

Number of employees: ND

**Active Technology (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): ND

Product line(s): Manufacture and distribution of electronic components

Brand name(s): NA

SIC code(s): 3674, 5065

Number of employees: ND

**Advanced Semiconductor Devices (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): ND

Product line(s): Manufacture and distribution of semiconductor devices

Brand name(s): NA

SIC code(s): 3674, 5065

Number of employees: ND

**Automatic Systems Manufacturing (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): ND

Product line(s): Manufacture and distribution of electronic components and equipment

Brand name(s): NA

SIC code(s): 3674, 5065

Number of employees: ND

The Kopp family, of South Africa, owns the remaining 20 percent in Kopp Electronics. Kopp's major franchise partners in South Africa include U.S.-based Motorola, Hewlett-Packard and SGS-Thomson.

**BANDAG INC. Ø**

Bandag Center  
Muscatine, IA 52761  
319-262-1400  
BDG-n  
059815

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	125	5%

**Bandag Inc. South Africa (Pty.) Ltd.**

Percent of equity held: 100%  
Location(s): Johannesburg  
Product line(s): Manufacture and sale of tread rubber, equipment and related supplies  
Brand name(s): Bandag  
SIC code(s): 3011, 3069  
Number of employees: 125

**BAUSCH & LOMB INC.**

One Lincoln First Sq.  
Rochester, NY 14692  
716-338-6000  
BOL-n  
071707

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	NA	NA
Assets (millions U.S. \$)	ND	ND
Employees	30	0.2%

**Bausch & Lomb South Africa (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Glasses, contact lenses and other eye-care products

Brand name(s): Bausch &amp; Lomb

SIC code(s): 5099

Number of employees: 30

Bausch & Lomb returned to South Africa in October 1996 after an eight-year absence to purchase its exclusive distributor, SA Vision Care, which was renamed Bausch & Lomb South Africa (Pty.) Ltd.

**BECKMAN INSTRUMENTS INC. Ø**

2500 Harbor Blvd.

Box 3100

Fullerton, CA 92634-3100

714-871-4848

BEC-n

075816

FY 1995	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	43	0.8%

**Beckman Instruments (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Diagnostic/analytical instruments

Brand name(s): Beckman Instruments

SIC code(s): 3800

235

Number of employees: 43

**BORDEN INC.**

277 Park Ave.

New York, NY 10172

614-225-4000

BN-n

099599

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	270	1%

**Borden (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Braamfontein (Gauteng)

Product line(s): Holding company

Number of employees: 3

**Babelegi Processing (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Babelegi (North West)

Product line(s): Manufacture of food products

Brand name(s): NA

SIC code(s): 2000

Number of employees: 200

**Borden Foods (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Braamfontein (Gauteng)

Product line(s): Sale of food products

Brand name(s): Borden

SIC code(s): 5145

Number of employees: 67

**Resinite (South Africa) (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Vanderbijlpark (Gauteng)

Product line(s): Manufacture and sale of plastic packaging films

Brand name(s): NA

SIC code(s): 3086, 5162

Number of employees: 230

**BRISTOL-MYERS SQUIBB CO.**

345 Park Ave.

New York, NY 10154

212-546-4000

BMY-n

110122

FY 1996	in South Africa	% of worldwide	
Sales (millions U.S. \$)	53.6	0.4%	
Assets (millions U.S. \$)	33	0.2%	
Employees	330	0.7%	

**Bristol-Myers Squibb (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Manufacture and sale of consumer products, pharmaceuticals and adult nutritionals

Brand name(s): Bristol-Myers Squibb

SIC code(s): 2834

Number of employees: 330

Bristol-Myers Squibb also has two dormant South African subsidiaries named Bristolabs (Pty.) Ltd. and B.L. Pharmaceuticals.

**BUCYRUS INTERNATIONAL INC.**

237

Formerly Bucyrus-Erie Co.  
1100 Milwaukee Ave.  
Milwaukee, WI 53172  
414-768-4000  
BCYR-o  
118902

FY 1996	in South Africa	% of worldwide	
Sales (millions U.S. \$)		ND	ND
Assets (millions U.S. \$)		ND	ND
Employees		30	2.6%

**Bucyrus (Africa) (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Isando

Product line(s): Parts depot and sales office for mining machinery

Brand name(s): Bucyrus International

SIC code(s): 5082

Number of employees: 30

**BULAB HOLDINGS**

1256 N. McLean Blvd.  
Memphis, TN 38108  
901-278-0330

Privately held

FY 1996	in South Africa	% of worldwide	
Sales (millions U.S. \$)		5.4	2%
Assets (millions U.S. \$)		22.2	ND
Employees		114	9.3%

**Buckman Laboratories (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Hammersdale (Natal)

Product line(s): Speciality chemicals

Brand name(s): Buckman  
SIC code(s): 2800  
Number of employees: 114

Bulab's South African subsidiary formerly was held through its U.S. subsidiary, Buckman Laboratories Inc.

**CALTEX PETROLEUM CORP.**

P.O. Box 619500  
Dallas, TX 75261  
214-830-1000

Joint venture

FY 1995	in South Africa	% of worldwide
Sales (millions U.S. \$)	1069	ND
Assets (millions U.S. \$)	634	ND
Employees	2,168	ND

**Afric Oil (Pty.) Ltd.**

Percent of equity held: 10%  
Location(s): Throughout Gauteng  
Product line(s): Gasoline retail sales  
Brand name(s): Afric Oil  
SIC code(s): 5541  
Number of employees: ND

**CaltexOil (South Africa) (Pty.) Ltd.**

Percent of equity held: 100%  
Location(s): Cape Town (head office)  
Product line(s): Petroleum refining and marketing; manufacture and sale of petroleum products  
Brand name(s): Caltex  
SIC code(s): 2900  
Number of employees: 2,168

**South African Oil Refinery (Pty.) Ltd.**

Percent of equity held: 34%

Location(s): Durban

Product line(s): Manufacture and sale of petroleum products

Brand name(s): Caltex

SIC code(s): 2900

Number of employees: 98

Caltex Petroleum Corp. is owned jointly by Texaco Inc. (TX, 881694) and Chevron Corp. (CHV, 166751).

Caltex confirmed for IRRC in April 1997 that it would take the first full cargo of 600,000 barrels of crude from South Africa's Oribi oil field in May to its Cape Town refinery. Soeker, South Africa's state-owned oil exploration company, got its first break in its long-standing quest to find oil at the Oribi oil field, about 85 miles southwest of Mossel Bay. Oribi is expected to produce 20,000 barrels of oil a day.

Caltex, in 1995, ceded management of 100 Caltex service stations in Gauteng Province to Africa Oil, an independent black-managed consortium. Caltex provided Africa Oil with R1 million in seed capital and a management fee of about R200,000. Worldwide Africa Management Ltd., a black holding company led by prominent South African businessman and economist Wiseman Nkuhlu, owns 51 percent of Africa Oil, Caltex owns 10 percent, the financial institution Firstcorp owns 10 percent, and a subsidiary of Transnet, the state-owned transportation company, owns 29 percent.

**CARGILL INC.**

Box 5624

Minneapolis, MN 55440

612-742-6357

Privately held

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	190	ND

**Cargill South Africa (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Import and export of agricultural products such as cereals and oil seeds

Brand name(s): Cargill

SIC code(s): 5153

Number of employees: 190

Cargill confirmed for IRRC in February 1995 that it continued to have an agreement with Omnia, the South African company to which it sold its subsidiary in 1988, for the licensed use of certain Cargill genetic material and seed-related technology.

**CATERPILLAR INC.**

100 N.E. Adams St.

Peoria, IL 61629

309-675-1000

CAT-n

149123

FY 1995	in South Africa	% of worldwide
Sales (millions U.S. \$)	114	0.7%
Assets (millions U.S. \$)	16	0.1%
Employees	75	0.1%

**Caterpiillar (Africa) (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Isando

Product line(s): Parts warehousing operation that supplies replacement parts for

Caterpillar construction, earth-moving and mining machines to its independent dealer

Brand name(s): Caterpillar

SIC code(s): 3500

Number of employees: 75

The South African conglomerate Barlow Rand also distributes Caterpillar products in South Africa.

**CBI INDUSTRIES INC. Ø**

800 Jorie Blvd.

Oak Brook, IL 60521

CBH-n

124800

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	38	ND
Assets (millions U.S. \$)	30	ND
Employees	750	ND

**CBI Constructors S.A. (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Fabrication and construction of large metal plate structures

Brand name(s): CBI

SIC code(s): 1629, 3443

Number of employees: 750

**CIGNA CORP.**

1601 Chestnut St.

Philadelphia, PA 19112

215-761-1000

CI-n

125509

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	19	0.1%
Assets (millions U.S. \$)	21.8	0%
Employees	55	0.1%

**Cigna Insurance Co. Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Insurance products and services

Brand name(s): Cigna Insurance

SIC code(s): 6400

Number of employees: 55

Cigna reacquired Cigna Insurance Co. Ltd. in 1994, after having sold it to its employees in 1987. It has branch offices in Cape Town, Durban and Pretoria.

**CLARCOR INC.**

2323 Sixth St.

P.O. Box 7007

Rockford, IL 61125

815-962-8867

CLC-n

179895

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	NA	NA
Assets (millions U.S. \$)	2	0.8%
Employees	65	2.7%

**Baldwin Filters Inc., U.S.A.**

Percent of equity held: 100%

**Baldwin Unifil South Africa (Pty.) Ltd.**

Percent of equity held: 70%

243

Location(s): Johannesburg  
Product line(s): Air filtration products for heavy-duty transportation equipment and automobiles  
Brand name(s): Baldwin and Unifil  
SIC code(s): 5013  
Number of employees: 5

**Unifil (Pty.) Ltd.**

Percent of equity held: 100%  
Location(s): Johannesburg, Port Elizabeth  
Product line(s): Air filtration products for heavy-duty transportation equipment and automobiles  
Brand name(s): Unifil  
SIC code(s): 3714  
Number of employees: 60

**THE COCA-COLA CO.**

One Coca-Cola Plaza  
Atlanta, GA 30313  
404-676-2121  
KO-n  
191216

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	ND	ND

**Coca-Cola Co. Southern Africa Division Office**

Representative office  
Location(s): Johannesburg  
Product line(s): Service and support to customers and bottlers in South Africa and nine other countries

246

Number of employees: ND

**Amalgamated Beverages Industries**

Percent of equity held: More than 50%

Location(s): Johannesburg

Product line(s): ND

Brand name(s): Coca-Cola, Minute Maid

SIC code(s): 2000

Number of employees: ND

**Coca-Cola South Africa**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Soft drink manufacturing and bottling

Brand name(s): Coca-Cola

SIC code(s): 2086

Number of employees: ND

**Coca-Cola Sabco (Pty.) Ltd.**

Percent of equity held: 16%

Location(s): Port Elizabeth

Product line(s): Soft drinks

Brand name(s): Coca-Cola

SIC code(s): 2086

Number of employees: ND

**Fortune Investment Holding**

Percent of equity held: More than 50%

Location(s): Nelspruit

Product line(s): ND

Brand name(s): ND

SIC code(s): ND

Number of employees: ND

Coca-Cola confirmed for IRRC in April 1997 that it and its local bottling partners in South Africa will invest \$360 million in its operations in South Africa, Zimbabwe and Tanzania

over the next year as part of a capital investment program. The capital infusion will fund an expansion of operations to increase capacity at Coca-Cola bottling plants, the purchase of cold drink coolers and other sales equipment in the marketplace, and an increase in marketing initiatives in the three countries.

Coca-Cola Sabco is Coca-Cola's "anchor" bottler for all of southern Africa. In addition to operations in Port Elizabeth, Coca-Cola Sabco has bottling interests in Kenya, Tanzania, Uganda and Namibia. Coca-Cola Sabco's majority owner is Gutsche Family Investments (GFI), which retains the remaining 84 percent stake in Coca-Cola Sabco.

Coca-Cola announced in May 1996 that its Houston-based foods division is reintroducing Minute Maid juices to South Africa as part of the company's foreign growth strategy.

**COLGATE-PALMOLIVE CO.**

300 Park Ave.

New York, NY 10022-7499

212-310-2000

CL-n

194162

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	781	2.1%

**Colgate-Palmolive Ltd.**

Percent of equity held: 100%

Location(s): Boksburg

Product line(s): Dentrifrice, soaps, detergents, fabric softeners and shampoos

Brand name(s): Colgate, Palmolive, StaSoft, Ajax, Punch

SIC code(s): 2841, 2844

Number of employees: 781

186

**COMPAQ COMPUTER CORP.**

P.O. Box 69-2000  
20555 SH249  
Houston, TX 77269  
713-370-0670  
CPQ-n  
204493

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	15	0.1%

**Compaq Computer (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Technical, sales and marketing support for personal computer products

Brand name(s): Compaq

SIC code(s): 7370

Number of employees: 15

Compaq formed its South African subsidiary, which serves the southern Africa region, in October 1994. At that time, Compaq also announced plans to support the African Academy for Computer-Aided Design and Draughting (CADD) by providing 30 desktop PCs. Compaq is continuing its support of Endangered Wildlife Trust, a South African conservation organization.

Compaq confirmed for IRRC in March 1995 that, in addition to the new subsidiary, it had five authorized systems resellers in South Africa: Computer Alliance, Unidata, Persetel, Dimension Data and Precision Software. Tarsus Technologies, Computer Alliance and Unidata are Compaq's three authorized distributors in South Africa. The company has

two other authorized resellers in southern Africa: Extas in Botswana and Happy World in Mauritius.

**COULTER CORP. Ø**

600 W. 20th St.

Hialeah, FL 33010

305-885-0131

Privately held

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	31	ND

**Coulter Electronics South Africa Inc. (Pty.) Ltd.**

Percent of equity held: More than 50%

Location(s): Halfway House

Product line(s): Medical and scientific equipment

Brand name(s): ND

SIC code(s): 5047

Number of employees: 31

**CPC INTERNATIONAL**

P.O. Box 8000

International Plaza

Englewood Cliffs, NJ 07632

201-894-4000

CPC-n

126149

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	144.8	1.5%
Assets (millions U.S. \$)	101.2	1.3%
Employees	2,500	4.8%

**CPC Tongaat Foods**

Percent of equity held: 50%

Location(s): Johannesburg

Product line(s): consumer food products (domestic sales and exports)

Brand name(s): Alsa, Bovril, Conimex, Hellman's, Knorr, Marmite

SIC code(s): 2000

Number of employees: 2,500

CPC Tongaat Foods is a joint venture between CPC and Tongaat Consumer Foods (TCF), a subsidiary of the Tongaat-Hulett Group Ltd.

**CROWN CORK AND SEAL CO. INC.**

P.O. Box 6208

9300 Ashton Rd.

Philadelphia, PA 19136

215-698-5100

CCK-n

228255

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	64.7	0.8%
Assets (millions U.S. \$)	14.9	0.3%
Employees	830	4.1%

**Crown Investment Holdings (Pty.) Ltd.**

Percent of equity held: 50%

Location(s): Isando (Gauteng), Alrode (Gauteng), Bellville (Cape Town)

Product line(s): Closures, packaging and bottling machinery and equipment and cans

Brand name(s): ND

SIC code(s): 3411

Number of employees: 830

Crown Cork & Seal sold 50 percent of its equity in Crown Investment Holdings (Pty.) Ltd. to Holdains Ltd., of South Africa, in November 1992.

**DEERE & CO.**

John Deere Rd.  
Moline, IL 61265  
309-765-8000

DE-n  
244199

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	47.2	0.4%
Assets (millions U.S. \$)	24.6	0.2%
Employees	224	0.7%

**Bobaas Implements (Pty.) Ltd.**

Percent of equity held: 100%  
Location(s): Nigel (Transvaal)  
Product line(s): Holding company with no employees  
Brand name(s): NA  
SIC code(s): 6719  
Number of employees: 0

**John Deere (Pty.) Ltd.**

Percent of equity held: 100%  
Location(s): Nigel (Transvaal)  
Product line(s): Manufacture and distribution of farm equipment  
Brand name(s): ND  
SIC code(s): 3523  
Number of employees: 224

**DIGITAL EQUIPMENT CORP. Ø**

146 Main St.  
Maynard, MA 01754

508-493-5111  
DEC-n  
253849

FY 1995	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	70	0.1%

**Digital Sales & Services South Africa (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Sandton

Product line(s): Computer sales and service

Brand name(s): Digital

SIC code(s): 5045, 7300

Number of employees: 48

Digital has two authorized value-added resellers in South Africa: Bhakisizwe Computer Systems (a newly established majority black-owned company) and Olivetti Information Technology.

**DONALDSON CO. INC. Ø**

P.O. Box 1299

Minneapolis, MN 55440

612-884-3131

DCI-n

257651

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	11.5	1.5%
Assets (millions U.S. \$)	6	1.5%
Employees	209	4.1%

**Donaldson Filtration Systems (Pty.) Ltd.**

Percent of equity held: 100%  
Location(s): Cape Town  
Product line(s): Air cleaners  
Brand name(s): Donaldson  
SIC code(s): 3564  
Number of employees: 209

**DRESSER INDUSTRIES INC.**

P.O. Box 718  
2001 Ross Ave.  
Dallas, TX 75221  
214-740-6000  
DI-n  
261597

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	8.1	0.1%
Assets (millions U.S. \$)	17.6	0.3%
Employees	161	0.5%

**Dresser Ltd. - South African Branch**

Percent of equity held: 100%  
Location(s): Edendale, Cape Town  
Product line(s): Petrol pumps and control valves  
Brand name(s): NA  
SIC code(s): 3586  
Number of employees: 161

Dresser Industries also owns an inactive South African subsidiary, Wayne Pump Co. South Africa (Pty.) Ltd.

**E.I. DU PONT DE NEMOURS & CO.**

1007 Market St.

250

Wilmington, DE 19898

302-774-1000

DD-n

263534

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	32	0%

**Du Pont South Africa**

Representative office

Location(s): Midrand

Product line(s): Sales of crop protection products, fibers, packaging products and fluoropolymers

Brand name(s): Du Pont

SIC code(s): 5169

Number of employees: 32

DuPont also owns 50 percent of the equity in Crosfield Electronics Ltd., of the United Kingdom, which confirmed for IRRC in August 1993 that it distributes its products in South Africa through Wander Support Services.

**EASTMAN KODAK CO.**

343 State St.

Rochester, NY 14650

716-724-4000

EK-n

277461

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	6	0%
Assets (millions U.S. \$)	0.3	0%
Employees	50	0.1%

**Kodak South Africa (Pty.) Ltd.**

257

Percent of equity held: 100%  
Location(s): Johannesburg  
Product line(s): Marketing of consumer and professional Kodak photographic products  
Brand name(s): Kodak  
SIC code(s): 3861, 2821  
Number of employees: 50

Eastman Kodak reopened Kodak (South Africa) (Pty.) Ltd. in 1994, and the company began distribution and marketing of consumer and professional imaging products in South Africa later that year. Kodak had closed Kodak South Africa and another subsidiary, Atex Systems South Africa (Pty.) Ltd., in 1987. The company also sold a third South African subsidiary, Sterling Drug (SA) (Pty.) Ltd., which it had acquired with its 1988 purchase of Sterling Drug Inc., to Adcock-Ingram Ltd. in 1988.

**ECHLIN INC.**

100 Double Beach Rd.  
Branford, CT 06405  
203-481-5751

ECH-n  
278749

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	400	1.7%

**Echlin-Charger Manufacturing Co. (Pty.) Ltd.**

Percent of equity held: 92%  
Location(s): Johannesburg  
Product line(s): Manufacture of motor vehicle electrical and brake replacement parts  
Brand name(s): NA  
SIC code(s): 3700  
Number of employees: 400

**ELECTRONIC ARTS INC.**

1450 Fashion Island Blvd.

San Mateo, CA 94404

415-571-7171

ERTS-o

285512

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	NA	NA
Assets (millions U.S. \$)	ND	ND
Employees	50	3.3%

**E.A. Africa (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Sales and service office

Brand name(s): E.A., Electronic Arts, E.A. Sports

SIC code(s): 7371, 5092

Number of employees: 50

Electronic Arts confirmed for IRRC that it opened E.A. Africa (Pty.) Ltd. in the first quarter of 1996.

**ENGELHARD CORP. Ø**

101 Wood Ave.

Iselin, NJ 08830-0770

908-205-5000

EC-n

292845

255

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	6	0.2%
Employees	50	1%

**Engelhard S.A. (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Port Elizabeth

Product line(s): Manufacture of emissions control catalysts for autos

Brand name(s): NA

SIC code(s): 2819

Number of employees: 50

Engelhard opened its manufacturing plant in Port Elizabeth in January 1995. In a statement announcing the establishment of the plant, Joseph E. Gonnella, group vice president and general manager of Engelhard's Automotive Emissions Systems division, said it "will allow the automakers to participate in South African government-sponsored export and import programs designed to help improve the economy of the region," by helping car manufacturers to satisfy a government requirement for local content.

**FMC CORP.**

200 E. Randolph Dr.

Chicago, IL 60601

312-861-6000

FMC-n

302491

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	50	0.2%

**FMC S.A. (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Chemicals and farm equipment

Brand name(s): FMC  
SIC code(s): 5169, 5083  
Number of employees: 50

FMC Corp. purchased a stake in its South African distributor, Chemfit, to form FMC S.A. in 1995. In addition, FMC contracts with The Impact Machinery Co., of South Africa, to distribute its line of food processing and airplane-loading equipment in South Africa.

**FORD MOTOR CO.**

The American Rd.  
Dearborn, MI 48121  
313-322-3000  
F-n  
345370

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	995	0.7%
Assets (millions U.S. \$)	410	0.2%
Employees	NA	NA

**Ford Motor Credit Co., U.S.A.**  
Percent of equity held: 100%

**Ford Motor Credit S.A. (Pty.) Ltd.**  
Percent of equity held: 25%  
Location(s): Pretoria  
Product line(s): Automobile financing  
Brand name(s): Ford Motor Credit  
SIC code(s): 6159  
Number of employees: ND

**South African Motor Corp. (Pty.) Ltd.**  
Percent of equity held: 45%  
Location(s): Pretoria, Port Elizabeth

Product line(s): A motor vehicle assembly plant in Pretoria, and an engine production plant in Port Elizabeth

Brand name(s): Ford, Mazda, Mitsubishi

SIC code(s): 3711

Number of employees: 4,268

Ford Motor Credit provides sales support to the South African Motor Corp. (Pty.) Ltd. (Samcor). The stake holders in Ford Motor Credit S.A. are Anglo American Corp. of South Africa Ltd. (Anglo American Industrial Corp. Ltd.) (25 percent), Amalgamated Banks of South Africa Ltd. (50 percent) and Ford Motor Credit Co. (25 percent).

Samcor is jointly owned by Ford (45 percent), the Anglo American group of companies (45 percent) and the Samcor Employees Trust (10 percent). Samcor introduced the Ford Escort line to South Africa in late 1995, the first Ford brand-name car to be sold in that market since 1988.

Ford confirmed for IRRC in February 1997 that its subsidiary, The Hertz Corp., appointed South Africa's Alisa Car Rental, based in Cape Town, as its exclusive franchisee South Africa, marking Hertz's return to South Africa after a nearly ten-year absence.

**FOSTER WHEELER CORP. Ø**

Perryville Corporate Park

Clinton, NJ 08809-4000

908-730-4000

FWC-n

350244

FY 1995	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	77	0.6%

**Foster Wheeler Ltd., United Kingdom**

Percent of equity held: 100%

**Franklin Electric S.A. (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Randburg

Product line(s): Underwater electric motors

Brand name(s): ND

SIC code(s): 3621

Number of employees: 32

**Foster Wheeler Babcock (Pty.) Ltd.**

Percent of equity held: 50%

Location(s): Johannesburg

Product line(s): Engineering and construction

Brand name(s): Foster Wheeler, Babcock

SIC code(s): 8711, 1629

Number of employees: 77

Foster Wheeler acquired its equity in Foster Wheeler Babcock (Pty.) Ltd. in March 1993.  
In 1987, Foster Wheeler sold Foster Wheeler Energy Ltd., of South Africa.

**FRUEHAUF TRAILER CORP.**

26999 Central Park Blvd.

Southfield, MI 48076

317-630-3000

FTC-n

359397

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	156.5	ND
Employees	260	11.3%

**Henred Fruehauf Trailers (Pty.) Ltd.**

Percent of equity held: 25%

Location(s): Bergvei (Gauteng)

Product line(s): Trailers and containers  
Brand name(s): Freuhauf  
SIC code(s): 3715, 5012  
Number of employees: 260

**GENERAL ELECTRIC CO.**

3135 Easton Tpke.  
Fairfield, CT 06431  
203-373-2211  
GE-n  
369604

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	150	0.1%

**General Electric South Africa (Pty.) Ltd.**

Percent of equity held: 100%  
Location(s): Sandton (Johannesburg) and Kew (Johannesburg)  
Product line(s): Sale of industrial, power and consumer products.  
Brand name(s): General Electric  
SIC code(s): 5060, 5063  
Number of employees: 150

General Electric (GE) re-established business activities in South Africa in July 1994, after rescinding a policy in effect since 1988 that had prohibited new business and investment in South Africa. It now has 10 business divisions in South Africa.

In May 1997, GE signed an agreement with the South African government committing GE to help South Africa generate \$40 million in new economic activity, in return for certain business incentives.

GE confirmed for IRRC in mid-1996 that it had acquired Daimler Benz subsidiary AEG's low-voltage technology business in South Africa.

The GE Fund, GE's philanthropic arm supports several organizations involved in education in South Africa, including the U.S.-South Africa Leadership Exchange Program and the Gauteng Province Ministry of Education.

**GENERAL MOTORS CORP.**

3044 W. Grand Blvd.

Detroit, MI 48202

313-556-5000

GM-n

370442

FY 1996	in South Africa	% of worldwide	
Sales (millions U.S. \$)		ND	ND
Assets (millions U.S. \$)		ND	ND
Employees		1,000	0.1%

**Delphi Interior and Lighting Systems (Pty.) Ltd.**

Percent of equity held: 80%

Location(s): Port Elizabeth

Product line(s): Trimmed seats and leather seat covers

Brand name(s): NA

SIC code(s): 2399

Number of employees: 276

**Electronic Data Systems (EDS) Corp., U.S.A.**

Percent of equity held: 100%

**EDS in Africa (Pty.) Ltd.**

Percent of equity held: 42.8%

Location(s): Johannesburg

Product line(s): Information technology

Brand name(s): EDS

SIC code(s): 7374, 7372

Number of employees: 700

**A.T. Kearney Inc., U.S.A.**

Percent of equity held: 100%

**A.T. Kearney South Africa**

Representative office

Location(s): Johannesburg

Product line(s): Executive search and management consulting services

Brand name(s): A.T. Kearney

SIC code(s): 7361, 8742

Number of employees: ND

**Hughes Electronics Corp., U.S.A.**

Percent of equity held: 100%

**PanAmSat Corp., U.S.A.**

Percent of equity held: 71.5%

**PanAmSat Africa (Pty.) Ltd.**

Representative office

Location(s): Johannesburg

Product line(s): Satellite broadcasting and communications services

Brand name(s): PanAmSat

SIC code(s): 4899

Number of employees: 2

In 1986, General Motors completed the sale of its South African subsidiary, General Motors South Africa (Pty.) Ltd. (GMSA), to a group led by local management. The South African company is now called Delta Motor Corp. (Pty.) Ltd. General Motors retains a buyback clause that gives it the right of first refusal should the local South African owners of Delta Motor ever decide to sell the company. Both General Motors and Delta Motor have acknowledged in 1997 that they have begun preliminary talks on the prospects of General Motors taking an equity interest in Delta Motor, but neither company will comment on their discussions.

Delphi Interior and Lighting Systems (Pty.) Ltd. is a joint venture between General Motors (80 percent) and Delta Motor Corp. (20 percent). Delphi Interior and Lighting Systems (Pty.) Ltd. will manufacture fully trimmed seats for current and future Delta Motor models on a just-in-time basis and leather seat covers for export to GM's European subsidiary, Opel. Delta Motor Corp. assembles and distributes Opel cars, Isuzu trucks, Suzuki sport-utilities and Saab cars in southern Africa.

GM confirmed for IRRC in April 1995 that EDS in Africa is a joint venture with South Africa's Dimension Data. EDS supplies information technology to both public and private sector entities throughout sub-Saharan Africa. EDS in Africa was created from the merger of three South African information technology service companies ABS Holdings Ltd., AECL Information Services and White House Technologies.

A.T. Kearney, a Chicago-based management consulting firm, opened its office in South Africa in the first quarter of 1997.

PanAmSat Corp., which opened its office in Johannesburg in October 1996, maintains two satellites that service South Africa. Its office in Johannesburg is the first point of contact for African broadcasters, telecommunications providers and corporations to receive information on PanAmSat's services.

**THE GILLETTE CO.**  
Prudential Tower Bldg.  
Boston, MA 02199  
617-421-7000  
G-n  
375766

FY 1996	in South Africa	% of worldwide	
Sales (millions U.S. \$)	ND	ND	ND
Assets (millions U.S. \$)	ND	ND	ND
Employees	1,300	3.9%	

**Duracell International Inc., U.S.A.**

Percent of equity held: 100%

**Duracell S.A. (Pty.) Ltd.**

Representative office

Location(s): Johannesburg

Product line(s): Sales office

Brand name(s): Duracell

SIC code(s): 5063

Number of employees: ND

**Eveready South Africa (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Port Elizabeth

Product line(s): Manufacture and sale of dry-cell batteries

Brand name(s): Duracell, Eveready

SIC code(s): 3692

Number of employees: 1,100

**Gillette South Africa Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Sale and marketing of blades, razors and shaving preparations

Brand name(s): Gillette

SIC code(s): 3421, 3951

Number of employees: 97

**Oral-B Laboratories South Africa (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Sale and marketing of toothbrushes and other oral-care products

Brand name(s): Oral-B

SIC code(s): 5122

Number of employees: 21

**Parker Pen Holdings Ltd.**

Percent of equity held: 100%  
Location(s): Johannesburg  
Product line(s): Assembly, distribution and marketing of writing instruments  
Brand name(s): Parker Pen  
SIC code(s): 3951  
Number of employees: 91

Gillette acquired Duracell International's operations in December 1996, absorbing that company's South African operations.

Gillette purchased Parker Pen Holdings Ltd., which operates out of Johannesburg, in May 1993. Gillette confirmed for IRRC in April 1995 that its subsidiary, Braun International, has no investment in South Africa, but sells its products there through a distributor.

Gillette also confirmed for IRRC in April 1995 that, in 1989, it acquired the non-U.S. and non-European razor and blade business of Wilkinson Sword, which no longer has direct investment in South Africa, but whose razor blades are manufactured and sold in South Africa through South African Breweries Ltd.

#### **THE GOODYEAR TIRE & RUBBER CO.**

1144 E. Market St.  
Akron, OH 44316-0001  
330-796-2121  
GT-n  
382550

FY 1996	in South Africa	% of worldwide	
Sales (millions U.S. \$)	240	1.8%	
Assets (millions U.S. \$)	121	1.2%	
Employees	7,000	8%	

#### **Contred (Pty.) Ltd.**

Percent of equity held: 60%  
Location(s): Uitenhage, and retail and retreading operations throughout South Africa

265

Product line(s): Tire manufacturing, retail stores and re-treading operations  
Brand name(s): Consol, Goodyear, Interpak, Kelly Tyre, Mastertyre  
SIC code(s): 3011, 5014, 5531  
Number of employees: 7,000

Goodyear completed the purchase of a 60 percent stake in Contred, its former subsidiary, in November 1996 to return to South Africa after a seven-year absence. The company retains a five-year right to purchase the remaining 40 percent stake in Contred from Anglovaal Industries, its current co-owner.

In 1989, Goodyear sold its South African subsidiaries, Goodyear Tire & Rubber Co. (S.A.) (Pty.) Ltd. and Kelly-Springfield Tyre Co. (S.A.) (Pty.) Ltd., to Consol Ltd., an Anglovaal subsidiary, which had retained a technical and service arrangement with Goodyear. Anglovaal later bought 100 percent of Contred from Consol.

#### **HARNISCHFEGER INDUSTRIES INC. Ø**

P.O. Box 554  
13400 Bishops Ln.  
Brookfield, WI 53005  
414-486-6400  
HPH-n  
413345

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	93.2	3.2%
Assets (millions U.S. \$)	76	2.8%
Employees	1,003	7.2%

#### **Harnischfeger (South Africa) (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Alrode

Product line(s): Rope shovels, hydraulic shovels, draglines and rotary blasthole drills

Brand name(s): NA

SIC code(s): 1700, 3532

266

Number of employees: 144

**Joy Manufacturing Co. (Africa) (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg, Secunda, Wadeville, New Castle, Hendrina

Product line(s): Underground mining equipment, such as continuous miners, shuttle cars and shears for long haul units

Brand name(s): NA

SIC code(s): 3532

Number of employees: 654

**Morris Cranes**

Percent of equity held: 100%

Location(s): Benoni

Product line(s): Cranes, hoists and lifting products

Brand name(s): NA

SIC code(s): 3532

Number of employees: 86

**Morris (Crane Aid)**

Percent of equity held: 100%

Location(s): Benoni, Johannesburg, Richards Bay, Mossel Bay, Port Elizabeth

Product line(s): Servicing of cranes, hoists, lifting products

Brand name(s): NA

SIC code(s): 1700, 3532

Number of employees: 119

Harnischfeger also has the following dormant South African subsidiaries:

Harnischfeger Investments (S.A.) (Pty.) Ltd.

Harnischfeger Properties (S.A.) (Pty.) Ltd.

Harnischfeger (Swa.) (Pty.) Ltd.

O.H. Philpott Eng. (Pty.) Ltd.

261

**HARSCO CORP.**

P.O. Box 8888  
Camp Hill, PA 17011-8888  
717-763-7064  
HSC-n  
415864

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	684	5.2%

**Heckett MultiServ (South Africa) (Pty.) Ltd.**

Percent of equity held: 51%

Location(s): Pretoria

Product line(s): Metal recovery and processing of slag generated by Iscor; scrap recovery and melt shop services

Brand name(s): NA

SIC code(s): 3295, 3399

Number of employees: 425

**Heckett MultiServ International N.V., United Kingdom**

Percent of equity held: 100%

**FerroServ (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Randfontein

Product line(s): Recovery of stainless steel; ladle wrecking and cleaning

Brand name(s): NA

SIC code(s): 3295, 3399

Number of employees: 138

Heckett MultiServ (South Africa) (Pty.) Ltd. is owned jointly by Harsco (51 percent) and South African Iron and Steel Corp. (IsCOR) (49 percent).

268

**HONEYWELL INC.**

Honeywell Plaza  
Minneapolis, MN 55408  
412-951-1000  
HON-n  
438506

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	145	0.3%

**Honeywell Southern Africa (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Robertsham (Gauteng), Cape Town, Durban, Port Elizabeth

Product line(s): Commercial and industrial controls and services

Brand name(s): Honeywell

SIC code(s): 3800

Number of employees: 127

**Honeywell Southern Africa, Home and Building Control**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Energy control systems

Brand name(s): NA

SIC code(s): 3800

Number of employees: 18

Honeywell announced on Jan. 24, 1994, that it had re-acquired Honeywell Southern Africa, after having sold it in 1986 to a South African company, Murray & Roberts.

**INGERSOLL-RAND CO.**

200 Chestnut Ridge Rd.  
Woodcliff Lake, NJ 07675  
201-573-0123

IR-n  
456866

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	45	0.7%
Assets (millions U.S. \$)	45	0.8%
Employees	354	0.9%

**Ingersoll-Rand Co. S.A. (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Alrode

Product line(s): Mining, construction and industrial equipment

Brand name(s): NA

SIC code(s): 3531, 3532

Number of employees: 354

Ingersoll-Rand confirmed for IRRC in March 1995 that it plans to establish two new divisions in South Africa for the distribution of bearings and door hardware.

Ingersoll-Rand also owns Clark Equipment, which retains Euclid S.A. as its South African distributor.

**INTERNATIONAL BUSINESS MACHINES CORP. Ø**

Old Orchard Rd.

Armonk, NY 10504

415-765-1900

IBM-n

459200

FY 1995	in South Africa	% of worldwide
Sales (millions U.S. \$)	522	0.7%
Assets (millions U.S. \$)	191	0.2%
Employees	2,146	0.7%

**IBM South Africa Group Ltd.**

Percent of equity held: 51.9%  
Location(s): Johannesburg  
Product line(s): Holding company  
Brand name(s): NA  
SIC code(s): 6719  
Number of employees: 0

**IBM South Africa (Pty.) Ltd.**

Percent of equity held: 100%  
Location(s): Johannesburg  
Product line(s): Information systems, hardware, software and services (includes personal computer assembly and sales)  
Brand name(s): IBM, Lexmark  
SIC code(s): 3500  
Number of employees: 2,002

**International Outsourcing Services (IOS)**

Percent of equity held: 76%  
Location(s): Johannesburg  
Product line(s): Outsourcing services  
Brand name(s): IBM, IOS  
SIC code(s): 7300  
Number of employees: 119

**Lotus Development S.A. (Pty.) Ltd.**

Percent of equity held: 100%  
Location(s): Rivonia  
Product line(s): Software  
Brand name(s): Lotus  
SIC code(s): 7372  
Number of employees: 25

IBM South Africa Group (IBMSAG), which remains a listed company on the Johannesburg Stock Exchange, was formed in 1988 by the Information Services Management Trust, which purchased IBM's South African subsidiary when IBM disinvested on March 1, 1987, and appointed Information Services Management (Pty.)

Ltd. (ISM) as its exclusive representative. IBM's acquisition of IBMSAG became effective in the last quarter of 1994.

IBM confirmed for IRRC in April 1995 that International Outsourcing Services (IOS) was formed in January 1994. IOS's major customers include South African Breweries, Premier Milling and Gengold.

IBM also moved its Southern Area headquarters from Milan to Johannesburg to be closer to its market.

IBM purchased Lotus Development Corp. in 1995, thereby assuming control of Lotus's South African operations. Lotus retains two distributors in South Africa: HNR Computers and Computer Horizons.

**INTERNATIONAL FLAVORS & FRAGRANCES, INC. Ø**

521 W. 57th St.

New York, NY 10019

212-765-5500

IFF-n

459506

FY 1995	in South Africa	% of worldwide
Sales (millions U.S. \$)	15.2	1.1%
Assets (millions U.S. \$)	11.2	0.7%
Employees	59	1.3%

**I.F.F. (South Africa) (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Roodepoort

Product line(s): Flavors, fragrances and aroma chemicals

Brand name(s): NA

SIC code(s): 2800

Number of employees: 59

**INTERNATIONAL PAPER CO. Ø**

Two Manhattanville Rd.

Purchase, NY 10577

914-397-1500

IP-n

460146

FY 1994	in South Africa	% of worldwide	
Sales (millions U.S. \$)		ND	ND
Assets (millions U.S. \$)		ND	ND
Employees		1,534	1.9%

**Masonite Corp., U.S.A.**

Percent of equity held: 100%

**Masonite (Africa) Ltd.**

Percent of equity held: 67%

Location(s): Durban, Estcourt, Johannesburg, Bloemfontein, Cape Town, Port Elizabeth

Product line(s): Hardboard and forestry products

Brand name(s): ND

SIC code(s): 0800

Number of employees: 1,534

International Paper also owns Ilford Photo, which distributes its products in South Africa through Teltron (Pty.) Ltd.

In addition, International Paper owns Horsell Graphic Industries Ltd., of the United Kingdom, which distributes its presensitized offset plates in South Africa through EAC Graphics (S.A.) (Pty.) Ltd.

**THE INTERPUBLIC GROUP OF COS. INC. Ø**

1271 Ave. of the Americas

New York, NY 10020

212-399-8000

IPG-n  
460690

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	13	0.5%
Assets (millions U.S. \$)	ND	ND
Employees	313	1.6%

**Lintas (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Sandton

Product line(s): Advertising services

Brand name(s): ND

SIC code(s): 7311

Number of employees: ND

**Media Initiative (Pty.) Ltd**

Percent of equity held: 100%

Location(s): ND

Product line(s): Advertising services

Brand name(s): ND

SIC code(s): 7311

Number of employees: ND

**McCann International (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Advertising services

Brand name(s): ND

SIC code(s): 7311

Number of employees: ND

**McCann Johannesburg (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Advertising services

Brand name(s): ND  
SIC code(s): 7311  
Number of employees: ND

**JOHNSON & JOHNSON Ø**  
One Johnson & Johnson Plaza  
New Brunswick, NJ 08933  
908-524-0400  
JNJ-n  
478160

FY 1995	in South Africa	% of worldwide
Sales (millions U.S. \$)	130	0.6%
Assets (millions U.S. \$)	ND	ND
Employees	1,106	1.3%

**Janssen Pharmaceuticals (Pty.) Ltd.**

Percent of equity held: 100%  
Location(s): Randburg  
Product line(s): Marketing and sales of pharmaceuticals  
Brand name(s): Hismanaz, Vermox, Imodium  
SIC code(s): 5122  
Number of employees: 291

**Johnson & Johnson (Pty.) Ltd.**

Percent of equity held: 100%  
Location(s): East London  
Product line(s): Manufacture, marketing, sales and distribution of baby care, health care, sanitary protection and toiletry products  
Brand name(s): Johnson's, Band-Aid, Stayfree  
SIC code(s): 3842  
Number of employees: 507

**Johnson & Johnson Professional Products (Pty.) Ltd.**

275

Percent of equity held: 100%  
Location(s): Halfway House (Johannesburg)  
Product line(s): Manufacture, marketing, sale and distribution of sutures, surgical instruments and other medical devices  
Brand name(s): Ethicon, Surgikos, Vistakon  
SIC code(s): 3842  
Number of employees: 308

Johnson & Johnson also has a dormant South African subsidiary named Ethnor (Pty.) Ltd.

**S.C. JOHNSON & SON INC. Ø**

1521 Howe St.  
Racine, WI 53404

Privately held

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	158	1.2%

**S.C. Johnson & Son of South Africa (Pty.) Ltd.**

Percent of equity held: 100%  
Location(s): Johannesburg, Rosslyn (Pretoria)  
Product line(s): Household chemical specialties  
Brand name(s): ND  
SIC code(s): 2812  
Number of employees: 158

**JOHNSON CONTROLS INC.**

5757 N. Green Bay Ave.  
P.O. Box 591  
Milwaukee, WI 53201-0591  
414-228-1200  
JCI-n  
478366

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	50	0.5%
Assets (millions U.S. \$)	8	0.2%
Employees	250	0.4%

**Johnson Controls South Africa (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Uitenhage, Port Elizabeth and Pretoria

Product line(s): Automatic controls for regulating residential and commercial environments, in addition to a range of appliance and electronic control systems

Brand name(s): NA

SIC code(s): 3822

Number of employees: 250

Johnson Controls South Africa also entered into a joint venture agreement with Dorbyl (Pty.) Ltd., of South Africa, to supply seat systems to motor manufacturers in 1996.

**KELLOGG CO.**

1 Kellogg Co.  
Battle Creek, MI 49016  
616-961-2000  
K-n  
487836

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	275	1.9%

**Kellogg Co. of South Africa (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Springs

Product line(s): Manufacture, sale and distribution of cereal products

Brand name(s): Kellogg's

SIC code(s): 2043

Number of employees: 275

**KIMBERLY-CLARK CORP. Ø**

P.O. Box 619100

Dallas, TX 75261

214-830-1200

KMB-n

494368

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	145.1	1.1%
Assets (millions U.S. \$)	20.2	0.2%
Employees	NA	NA

**Carlton Paper Corp. Ltd.**

Percent of equity held: 12.66%

Location(s): Bedfordview (Johannesburg)

Product line(s): Manufacture and distribution of paper and non-woven products

Brand name(s): Kleenex, Huggies, Kotex, Thick and Thirsty

SIC code(s): 2600

Number of employees: 1,656

Kimberly-Clark indirectly owns an additional 26 percent of Carlton Paper Corp. Ltd. through its subsidiary Kimberly-Clark South Africa Holdings (Pty.) Ltd.

**ESTEE LAUDER COS. INC.**

767 Fifth Ave.

New York, NY 10022

212-572-4200

EL-n

518439

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	165	1.7%

**Horton Products (Pty.) Ltd.**

Percent of equity held: More than 50%

Location(s): Braamfontein (Johannesburg)

Product line(s): Cosmetics and fragrances

Brand name(s): Estee Lauder

SIC code(s): 2844

Number of employees: 165

**LEVI STRAUSS ASSOCIATES INC.**

1155 Battery St.

San Francisco, CA 94111

415-544-6000

6206B-o

526901

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	9	0.2%
Employees	140	0.4%

**Levi Strauss & Co., U.S.A.**

Percent of equity held: 100%

**Levi Strauss (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Cape Town

Product line(s): Manufacture and distribution of men's, women's and children's apparel

Brand name(s): Levis

SIC code(s): 2325, 2329, 2339

Number of employees: 140

Levi Strauss invested some \$9 million to open its manufacturing facility at Epping in Cape Town in 1995.

**ELI LILLY AND CO. Ø**

Lilly Corporate Center

Indianapolis, IN 46285

317-276-2000

LLY-n

532457

FY 1995	in South Africa	% of worldwide
Sales (millions U.S. \$)	62	0.8%
Assets (millions U.S. \$)	87	0.6%
Employees	188	0.7%

**Eli Lilly (S.A.) (Pty.) Ltd**

Percent of equity held: 100%

Location(s): Isando

Product line(s): Manufacture of pharmaceuticals and animal health products

Brand name(s): Eli Lilly

SIC code(s): 2834

Number of employees: 233

**LOCTITE CORP. Ø**

Hartford Sq. N.

10 Columbus Blvd.  
Hartford, CT 06106  
860-520-5000  
LOC-n  
540137

FY 1995	in South Africa	% of worldwide
Sales (millions U.S. \$)	0.2	0%
Assets (millions U.S. \$)	0.2	0%
Employees	34	0.8%

**Loctite (South Africa) Pty. Ltd.**

Percent of equity held: 100%

Location(s): Florida (Johannesburg)

Product line(s): Distribution and sale of industrial and consumer adhesives and sealants

Brand name(s): Loctite, Permatex, Duro, Woodhill

SIC code(s): 2891

Number of employees: 34

**THE LUBRIZOL CORP. Ø**

29400 Lakeland Blvd.  
Wickliffe, OH 44092  
216-943-4200  
LZ-n  
549271

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	39	0.8%

**Lubrizol SA (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Isipingo (Durban)

Product line(s): Additives for lubricants

Brand name(s): Lubrizol  
SIC code(s): 2869  
Number of employees: 39

**MEASUREX CORP. Ø**

One Results Way  
Cupertino, CA 95014  
408-255-1500  
MX-n  
583432

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	2	0.5%
Assets (millions U.S. \$)	1	0.3%
Employees	22	0.9%

**Measurex Africa (Pty.) Ltd.**

Percent of equity held: 100%  
Location(s): Umhlanga Rocks  
Product line(s): Product control equipment for the paper industry  
Brand name(s): NA  
SIC code(s): 3625, 7359  
Number of employees: 22

Measurex sold Measurex (S.A.) (Pty.) Ltd. to local management on March 4, 1987, and established Measurex Africa in 1992.

**METALLURG INC. Ø**

25 E. 39th St.  
New York, NY 10016  
212-686-4010

Privately held

FY 1995	in South Africa	% of worldwide
Sales (millions U.S. \$)	43	6.1%
Assets (millions U.S. \$)	ND	ND
Employees	40	2.4%

**Metallurg S.A. (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Germiston

Product line(s): Metallurgical alloys

Brand name(s): NA

SIC code(s): 3313, 1061

Number of employees: 40

**MINERALS TECHNOLOGIES INC. Ø**

409 Lexington Ave.

New York, NY 10174-1901

212-878-1800

MTX-n

603158

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	7.1	1.4%
Assets (millions U.S. \$)	3.2	0.5%
Employees	36	1.6%

**MTSA (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Pietermaritzburg, Sandton

Product line(s): Monolithic refractories

Brand name(s): Guntapite, Pferrocal, Mono-Line and Q-Vibe

SIC code(s): 3297, 2819

Number of employees: 36

Minerals Technologies acquired MTSA from Pfizer Inc. in October 1992.

**MINE SAFETY APPLIANCES CO.**

P.O. Box 426  
Pittsburgh, PA 15230  
412-967-3000

MNES-o  
602720

FY 1996	in South Africa	% of worldwide	
Sales (millions U.S. \$)	16.7	3.3%	
Assets (millions U.S. \$)	1	0.2%	
Employees	NA	NA	

**Auergesellschaft, Germany**

Percent of equity held: 100%

**Boart MSA (Pty.) Ltd.**

Percent of equity held: 49%

Location(s): Johannesburg

Product line(s): Manufacture and sale of mining industrial safety equipment,  
moving filtration equipment, building filtration, instruments, mine lamps and  
fire extinguishers

Brand name(s): NA

SIC code(s): 3842, 3823

Number of employees: 220

**MINNESOTA MINING & MANUFACTURING CO.**

3M Center  
St. Paul, MN 55144  
612-733-1110  
MMM-n  
604059

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	90	0.6%
Assets (millions U.S. \$)	ND	ND
Employees	736	1%

**3M South Africa (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Manufacture and import of adhesives, abrasives, pressure-sensitive tapes, health care products, electrical and telecommunications equipment

Brand name(s): 3M, Scotch

SIC code(s): 2891

Number of employees: 699

**3M Pharmaceuticals (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Ethical prescription drugs for treatment of asthma, bronchitis, pulmonary emphysema, arthritis, musculo-skeletal pain, migraines, angina and cardiac arrhythmias

Brand name(s): 3M

SIC code(s): 2600, 2834

Number of employees: 37

3M South Africa (Pty.) Ltd also owns the following property companies which are dormant subsidiaries with no employees:

SupaSnaps Properties (Pty.) Ltd.

3M Africolor South Africa (Pty.) Ltd.

3M (Pty.) Ltd.

285

**MOLEX INC. Ø**

2222 Wellington Ct.

Lisle, IL 60532

630-469-4550

MOLX-o

608554

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	62	0.6%

**Technor (Pty.) Ltd.**

Percent of equity held: 87%

Location(s): Johannesburg

Product line(s): Manufacture of electronic components

Brand name(s): NA

SIC code(s): 3678

Number of employees: 62

**MONSANTO CO. Ø**

800 N. Lindbergh Blvd.

St. Louis, MO 63167

314-694-1000

MTC-n

611662

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	170	0.6%

286

**Monsanto SA (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Sandton

Product line(s): Textile fibers, plastics and agricultural and industrial chemicals

Brand name(s): NA

SIC code(s): 2800

Number of employees: 43

**G.D. Searle & Co., U.S.A.**

Percent of equity held: 100%

**G.D. Searle (S.A.) (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Reuven (Gauteng)

Product line(s): Pharmaceuticals

Brand name(s): NA

SIC code(s): 2834

Number of employees: 127

**NALCO CHEMICAL CO. Ø**

One Nalco Center

Naperville, IL 60563-1198

708-305-1000

NLC-n

629853

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	302	5%

**Anikem (Pty.) Ltd.**

Percent of equity held: 50%

Location(s): Johannesburg

Product line(s): Manufacture of water treatment and other specialty chemicals

Brand name(s): NA  
SIC code(s): 2800  
Number of employees: 302

**PHELPS DODGE CORP.**

2600 N. Central Ave.  
Phoenix, AZ 85004  
602-234-8100  
PD-n  
717265

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	12	0.3%
Assets (millions U.S. \$)	4	0.1%
Employees	185	1.2%

**Black Mountain Mineral Development Co.**

Percent of equity held: 44.6%  
Location(s): Aggeneys (Northern Cape)  
Product line(s): Lead, silver, zinc and copper mining  
Brand name(s): NA  
SIC code(s): 1000  
Number of employees: 1,153

**Phelps Dodge Mining (Pty.) Ltd.**

Percent of equity held: 100%  
Location(s): Johannesburg, Zeerust (Northwest province)  
Product line(s): Production of acid and metallurgical grade fluorspar  
Brand name(s): NA  
Number of employees: 185

**PRECISION VALVE CORP. Ø**

P.O. Box 309

Yonkers, NY 10702  
914-969-6500

Privately held

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	280	46.7%

**Precision Valve South Africa (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Randburg

Product line(s): Aerosol valves and components; plastic moldings and extrusions

Brand name(s): NA

SIC code(s): 3499

Number of employees: 280

**Pearl Plastics (Pty.) Ltd.**

Percent of equity held: ND

Location(s): ND

Product line(s): Plastics

Brand name(s): NA

SIC code(s): ND

Number of employees: ND

**PROCTER & GAMBLE CO. Ø**

P.O. Box 599

Cincinnati, OH 45201-0599

513-983-1100

PG-n

742718

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	276	0.3%

**Procter & Gamble South Africa Ltd.**

Percent of equity held: 100%

Location(s): Kempton Park (Johannesburg)

Product line(s): Health and personal care products manufacturing

Brand name(s): Oil of Olay, Vicks, Clearasil, Always, Pampers

SIC code(s): 2033, 2045

Number of employees: 276

P&G's Max Factor cosmetic brands and Metamucil laxative continue to be managed and sold by licensees in South Africa. P&G says it receives a modest royalty payment for the licenses.

P&G also told IRRC in March 1995 that it had started an expansion of its Kempton Park factory to handle "future initiatives," but did not elaborate.

**REEBOK INTERNATIONAL LTD. Ø**

100 Technology Center Dr.

Stoughton, MA 02072

617-341-5000

RBK-n

758111

FY 1995	in South Africa	% of worldwide
Sales (millions U.S. \$)	7	0.2%
Assets (millions U.S. \$)	7.9	0.5%
Employees	50	0.7%

**Reebok South Africa**

Percent of equity held: 55%

Location(s): Johannesburg

Product line(s): Manufacture of apparel and distribution of athletic footwear

Brand name(s): Reebok  
SIC code(s): 5139  
Number of employees: 50

Reebok International established Reebok South Africa in March 1994 and opened a "concept store" in Johannesburg in June of that year. The remaining 45 percent equity of the subsidiary is held by five black South Africans.

**RJR NABISCO HOLDINGS CORP.**

1301 Ave. of the Americas  
New York, NY 10019  
212-258-5600  
RN-n  
74960K

FY 1996	in South Africa	% of worldwide	
Sales (millions U.S. \$)		ND	ND
Assets (millions U.S. \$)		ND	ND
Employees		500	0.7%

**RJR Nabisco Holdings Group Inc., U.S.A.**

Percent of equity held: 100%

**RJR Nabisco Inc., U.S.A.**

Percent of equity held: 100%

**Nabisco Brands Inc., U.S.A.**

Percent of equity held: 100%

**Royal Beech-Nut (Pty.) Ltd.**

Percent of equity held: 50%

Location(s): Sandton (head office)

Product line(s): Snack foods and candy

Brand name(s): Oreos, Ritz, Snackwells, Beech-Nut, Beechies, Brea  
SIC code(s): 2052, 2064  
Number of employees: 500

Nabisco retains management control of Royal Beech-Nut (Pty.) Ltd., a subsidiary of Del Monte Royal Foods, of South Africa. Royal Beech-Nut was one of two South African subsidiaries that Nabisco held a 100 percent stake in until it disinvested in 1989 and 1990.

**RPM INC.**

2628 Pearl Rd.  
P.O. Box 777  
Medina, OH 44258  
330-273-5090  
RPOW-o  
749685

FY 1996	in South Africa	% of worldwide	
Sales (millions U.S. \$)	5.4	0.5%	
Assets (millions U.S. \$)	7.5	0.6%	
Employees	50	0.9%	

**Carboline Inc., U.S.A.**

Percent of equity held: 100%

**Chemrite Coatings (Pty.) Ltd.**

Percent of equity held: 54%

Location(s): Johannesburg and throughout South Africa

Product line(s): Manufacture of industrial maintenance and corrosion control coatings

Brand name(s): NA

SIC code(s): 2819

Number of employees: 50

Carboline purchased its stake in Chemrite in 1996.

**SARA LEE CORP. Ø**

3 First National Plaza

Chicago, IL 60602

312-726-2600

SLE-n

803111

FY 1995	in South Africa	% of worldwide
Sales (millions U.S. \$)	150	0.8%
Assets (millions U.S. \$)	73	0.6%
Employees	4,047	3%

**Kiwi Brands (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Pinetown

Product line(s): Manufacture and sale of consumer products

Brand name(s): Kiwi, Ambi

SIC code(s): 2844

Number of employees: 277

**Avroy Shlain Cosmetics (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Kramerville

Product line(s): Direct marketing of personal care products

Brand name(s): Avroy Shalain, Swissgarde

SIC code(s): 2844

Number of employees: 329

**Sara Lee Personal Products (South Africa) (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Durban, Estcourt, Cape Town

Product line(s): Manufacture and sale of intimate apparel products, including hosiery

Brand name(s): Playtex, Cameo, Berkshire, Golden Girl

SIC code(s): 2342, 2254, 2251

Number of employees: 3,411

Sara Lee reacquired Kiwi Brands (Pty.) Ltd. and its subsidiaries in January 1994 after having sold them in 1986 to a Dutch company, Vlijmense Beleggings Maatschappij B.V., in response to shareholder disapproval and declining profitability. Sara Lee retained a trademark licensing agreement with the purchaser to protect the trademarks.

Sara Lee told IRRC in March 1995 that, due to a restructuring, Kiwi's former subsidiaries (Playtex, The South African Hosiery Co., Golden Girl Hosiery and HBH Textiles) now form part of the renamed Sara Lee Personal Products (South Africa) (Pty.) Ltd.

**SCHERING-PLOUGH CORP. Ø**

Galloping Hill Rd.

Kenilworth, NJ 07033

201-822-7000

Privately held

FY 1995	in South Africa	% of worldwide
Sales (millions U.S. \$)	30	0.5%
Assets (millions U.S. \$)	ND	ND
Employees	170	0.8%

**Scherag (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Isando

Product line(s): Manufacture and distribution of over-the-counter pharmaceuticals

Brand name(s): ND

SIC code(s): 2834

Number of employees: 170

**STANDARD COMMERCIAL CORP. Ø**

P.O. Box 450

Wilson, NC 27894-0450

919-291-5507

STW-n

853258

FY 1995	in South Africa	% of worldwide
Sales (millions U.S. \$)	17	1.3%
Assets (millions U.S. \$)	14.7	1.9%
Employees	60	2.6%

**Standard Wool South Africa (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Port Elizabeth

Product line(s): Purchasing and processing of raw wool

Brand name(s): NA

SIC code(s): 2200

Number of employees: 60

**STRATEGIC MINERALS CORP.**

30 Main St.

Danbury, CT 06810

203-790-1555

Privately held

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	349	43.6%

**Vametco Minerals Corp.**

Percent of equity held: 100%

Location(s): Brits

Product line(s): Vanadium mining  
Brand name(s): NA  
SIC code(s): 1000  
Number of employees: 349

**TENNECO INC.**

Tenneco Building  
Houston, TX 77002  
713-757-2131  
TEN-n  
880370

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	30	0.5%
Assets (millions U.S. \$)	ND	ND
Employees	500	0.8%

**Tenneco Automotive, U.S.A.**

Percent of equity held: %

**Armstrong Holdings Ltd.**

Percent of equity held: More than 50%  
Location(s): Port Elizabeth  
Product line(s): Automobile parts and accessories  
Brand name(s): Monroe, Tenneco and Walker  
SIC code(s): 3714  
Number of employees: 500

Tenneco Automotive purchased its majority stake in Armstrong Holdings Ltd., a subsidiary of Metair Investments Ltd., in June 1997. Sales and asset figures listed above reflect year to date sales for Armstrong Holdings Ltd.

**ALBERT TROSTEL & SONS CO.**

10201 W. Lincoln Ave.

P.O. Box 743

Milwaukee, WI 53227-2190

414-327-4870

Privately held

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	NA	NA
Assets (millions U.S. \$)	ND	ND
Employees	120	20%

**Eagle-Ottawa Leather Co., U.S.A.**

Percent of equity held: 100%

**Eagle-Ottawa Europe Ltd., United Kingdom**

Percent of equity held: 100%

**Eagle-Ottawa South Africa (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Ekandustria (Pretoria)

Product line(s): Cut/finish and contract-sew services for leather automotive products

Brand name(s): Eagle Ottawa

SIC code(s): 3111

Number of employees: 120

Opened in 1996, Eagle-Ottawa's plant reached full capacity in 1997. The company's plant in Ekandustria produces automotive interior trim for automobile manufacturers in South Africa and has plans to export in the near future.

**TRW INC. Ø**

1900 Richmond Rd.

Cleveland, OH 44124

216-291-7000

TRW-n

872649

FY 1995	in South Africa	% of worldwide
Sales (millions U.S. \$)	11	0.1%
Assets (millions U.S. \$)	6	0.1%
Employees	270	0.4%

**Safety Transport Inter (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Atlantis

Product line(s): Seat belts

Brand name(s): TRW

SIC code(s): 3199

Number of employees: 270

**UNION CAMP CORP.**

1600 Valley Rd.

Wayne, NJ 07470

201-628-2000

UCC-n

905530

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	6.2	0.2%
Assets (millions U.S. \$)	13.5	0.3%
Employees	85	0.5%

**Bush Boake Allen (S.A.) (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Isando

Product line(s): Manufacture of flavors and fragrances

Brand name(s): NA

SIC code(s): 5169

Number of employees: 85

**UNION CARBIDE CORP. Ø**

39 Old Ridgebury Rd.  
Danbury, CT 06817-0001  
203-794-2000  
UK-n  
905581

FY 1995	in South Africa	% of worldwide
Sales (millions U.S. \$)	52.6	0.9%
Assets (millions U.S. \$)	31.7	0.5%
Employees	19	0.2%

**Union Carbide South Africa (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Sale and distribution of imported Union Carbide products (specialty chemicals)

Brand name(s): Union Carbide

SIC code(s): 2800

Number of employees: 19

Union Carbide has three wholly owned, dormant South African subsidiaries: Minbeau (Pty.) Ltd., Ruighoek Chrome Mines (Pty.) Ltd. and Ucar Vanor (Pty.) Ltd.

**WARNER-LAMBERT CO. Ø**

201 Tabor Rd.  
Morris Plains, NJ 07950  
201-540-2000  
WLA-n  
934488

FY 1994	in South Africa	% of worldwide
Sales (millions U.S. \$)	ND	ND
Assets (millions U.S. \$)	ND	ND
Employees	617	1.7%

**Warner-Lambert S.A. (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Cape Town, Johannesburg

Product line(s): Pharmaceuticals and consumer products

Brand name(s): Warner-Lambert

SIC code(s): 2834

Number of employees: 617

**WHIRLPOOL CORP.**

2000 M-63

Benton Harbor, MI 49022

616-923-5000

WHR-n

963320

FY 1966	in South Africa	% of worldwide
Sales (millions U.S. \$)	NA	NA
Assets (millions U.S. \$)	33.4	0.4%
Employees	1,543	3.4%

**Whirlpool S.A. (Pty.) Ltd.**

Percent of equity held: 100%

Location(s): Johannesburg

Product line(s): Manufacture and distribution of major domestic appliances

Brand name(s): Whirlpool and KIC

SIC code(s): 3632, 5064

Number of employees: 1,543

Whirlpool purchased General Technologies (Pty.) Ltd. (Gentech), its former distributor, in the last quarter of 1996 to form Whirlpool S.A. Whirlpool will begin production of a new range of refrigeration products in South Africa in 1998, and the company will be

making additional investments in the country in the next few years to reengineer production and upgrade equipment.

**XEROX CORP.**

800 Long Ridge Rd.  
P.O. Box 1600  
Stamford, CT 06904  
203-968-3000  
XRX-n  
984121

FY 1996	in South Africa	% of worldwide
Sales (millions U.S. \$)	NA	NA
Assets (millions U.S. \$)	ND	ND
Employees	900	1.1%

**Rank Xerox Ltd.**

Percent of equity held: 100%

**Xerox S.A. (Pty.) Ltd.**

Percent of equity held: 50%

Location(s): Johannesburg and throughout South Africa

Product line(s): Distribution and marketing of office equipment

Brand name(s): Xerox and Fintech

SIC code(s): 5044

Number of employees: 900

Xerox returned to South Africa, after a 10-year absence, to establish Xerox S.A. in February 1997. Xerox S.A. is a joint venture owned by Xerox and South Africa's Fintech (Pty.) Ltd.